

1 is a necessary cost of doing business that is not incurred at any other nuclear power plant
2 in the world. The cost of water and maintaining the Water Reclamation Resources added
3 approximately \$2.24/MWh to Operations and Maintenance costs during the test year.

4 Palo Verde purchases its cooling water from wastewater treatment plants located in
5 the greater Phoenix area (Glendale, Mesa, Phoenix, Scottsdale, and Tempe, (the Sub
6 regional Operating Group "SROG"), and Tolleson). The SROG and Tolleson wastewater
7 treatment plants' effluent gravity flows westward for 28 miles in an underground pipeline
8 to the Hassayampa River basin due to the natural decrease in elevation. From the
9 Hassayampa River, it is then pumped eight miles to Palo Verde overcoming the natural
10 increase in elevation from the Hassayampa River to Palo Verde.

11 Once received at Palo Verde, the effluent is treated at the Palo Verde Water
12 Resources Facility to remove minerals that would otherwise damage or cause scaling on
13 vital plant cooling components. After being treated, the water is stored in either one of
14 Palo Verde's on-site 45-acre or 85-acre reservoirs. When cooling water is needed, it is
15 pumped to the cooling towers where it is cycled more than 25 times before a small amount
16 (less than 5%) is discharged to one of the three evaporation ponds. The remaining 95% of
17 the cooling water is gradually lost to the atmosphere through cooling tower evaporation.
18 Palo Verde understands that conserving water is important for the future of the Southwest.

19 Water Resources Facility operations described above represent a separate on-site
20 water treatment plant with a staff of approximately 120 people, along with chemicals,
21 materials, and supplies. Additionally, as a zero liquid discharge plant, Palo Verde must also
22 operate and maintain three very large evaporation ponds (covering 250, 220, and 180 acres,
23 respectively for a total of 650 acres) until all standing water from the cooling tower
24 discharge evaporates. In all other nuclear plants, the cooling water would simply be
25 discharged into the river, lake, or ocean. Photograph CDH-2 shows the PVGS path of
26 effluent water.

27 /

28 /

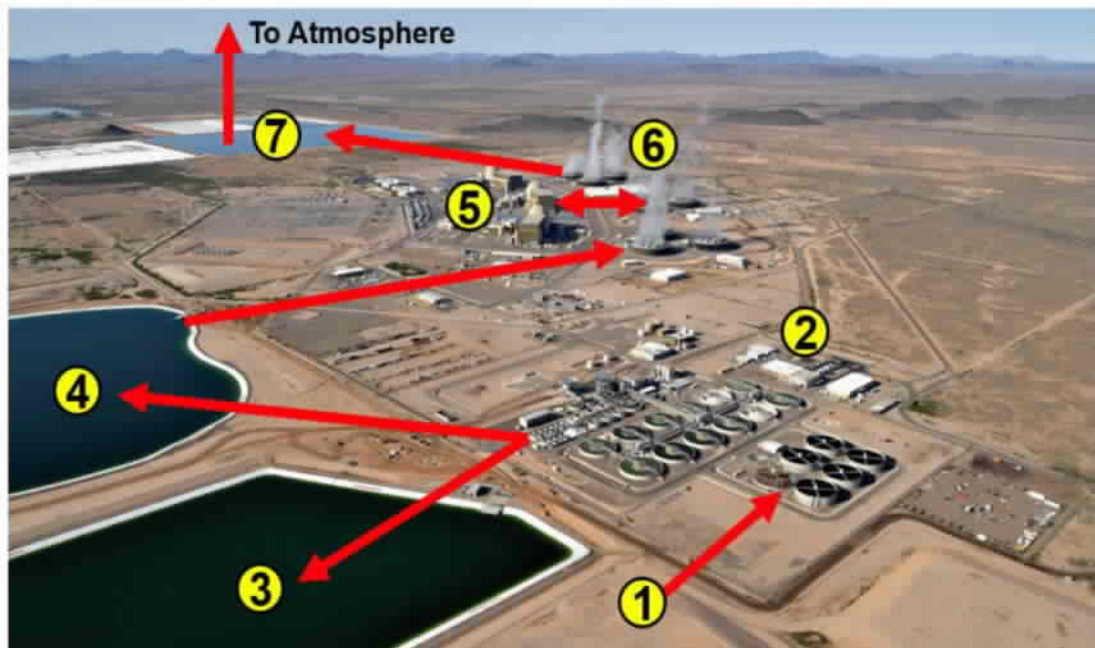
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Photograph CDH-2 - Palo Verde Station Effluent Water Flow Path

Palo Verde Effluent Flow Path



- | | |
|---|---------------------|
| ① Water Effluent from Phoenix and other Communities | ⑤ Units 1, 2 and 3 |
| ② Water Resources | ⑥ Cooling Towers |
| ③ 45-Acre Reservoir | ⑦ Evaporation Ponds |
| ④ 85-Acre Reservoir | |

As just mentioned, PVGS could not generate electricity without the Water Resources Facility, which is unique to PVGS relative to the rest of the nuclear industry.

Q17. WHAT IS APS' ROLE IN OPERATING PALO VERDE?

A. Pursuant to the contract between and among the Owners (referred to as the Arizona Nuclear Power Project Participation Agreement), APS is the NRC operating license holder and operating agent of Palo Verde. In this regard, APS manages the employees and contractors working at Palo Verde and makes decisions with regard to the safe and reliable operation of the Station such as scheduling maintenance and refueling outages, shutting a unit down for an outage when an issue arises, and restarting a unit after an outage. APS confers with, and receives approval from, the Owners on a number of things, including all major capital projects. The involvement of the Owners in Palo Verde operations is facilitated by several committees, including the Administrative Committee, which is comprised of Owner senior executives, and the Engineering and Operating ("E&O") Committee which is a diverse

1 working level group comprised of representatives from all Owners. Many aspects of
2 nuclear power plant operations are affected by regulations promulgated by the NRC.

4 **IV. PVGS Capital**

5 **A. Monitoring and Approval Process of Capital Costs**

6 Q18. ARE YOU PRESENTING EPE'S RATE REQUEST FOR PALO VERDE CAPITAL
7 EXPENDITURES AND COSTS?

8 A. No, I am not. As discussed previously, EPE witness Martinez presents EPE's rate request
9 related to Palo Verde capital costs. I support that request by providing information about
10 these capital costs and projects. By "capital" I mean those projects that are capitalized for
11 accounting purposes under the Federal Energy Regulatory Commission's ("FERC")
12 Uniform System of Accounts. I will sometimes use the terms "capital additions," "capital
13 improvements," or "capital projects" to mean the same thing.

14
15 Q19. WHAT IS THE PVGS APPROACH TO EFFICIENT CAPITAL COST
16 MANAGEMENT?

17 A. The goal of cost efficiency, as stated in the PVGS mission statement, focuses on "We
18 SAFELY produce RELIABLE and affordable CLEAN energy for the LONG TERM".
19 Rigorous capital project development and oversight ensures that the plant continues to
20 operate safely and efficiently, while associated expenditures are managed appropriately.

21 PVGS utilizes a variety of measures to ensure that costs are managed appropriately.
22 These include informal cost comparison with other peer nuclear facilities, developing our
23 leaders' business acumen, and using strategic methods such as the Equipment Issues Heat
24 Map, Site Top Ten Technical Issues, and Long-Range Planning programs to prioritize capital
25 projects. For example, the Long-Range Planning program provides guidelines to
26 systematically plan for major projects including plant modifications and major maintenance
27 activities. Proactive project design and development milestone requirements allow PVGS to
28 anticipate and schedule the required work and related activities to reduce cost. Effective Long
29 Range Planning increases equipment reliability, assures the right timing of major projects
30 and component replacements, improves outage performance, and manages future budgets
31 and resources to proactively head off technical and life-cycle issues before they emergently

1 affect plant reliability or nuclear safety. Variance reports are prepared each month and are
2 reviewed by PVGS management and the Owners. During planned to refuel outages, PVGS
3 regularly reports on budget versus actuals in order to monitor and control expenses.

4 In addition, capital projects are vetted through a multi-tiered process with approvals
5 being required internally at PVGS and unanimously by the Owners. The process of review
6 and approval of capital modifications is designed to ensure that proposed projects undergo
7 several layers of scrutiny and review to demonstrate they are necessary and reasonable.
8 Plant modifications that will gain safety margin and increase plant reliability are discussed
9 later in my testimony. PVGS management and all Owners review and approve all capital
10 projects to ensure that capital improvements at PVGS are consistent with the needs of all
11 the Owners and are in the interest of their customers. Lower-cost work authorizations are
12 approved by the E&O Committee, whose chair is the Palo Verde Senior Vice President of
13 Site Operations, while higher-cost work authorizations require Administrative Committee
14 approval. The Administrative Committee is chaired by the PVGS Executive Vice President
15 and Chief Nuclear Officer.

16 Cost effectiveness efforts also focus on budget development and control. Budget
17 assumptions, such as staffing, timing, and duration of outages, are established by the
18 Business Operations Department after working with other groups at Palo Verde. This
19 allows each of the business groups at Palo Verde to identify necessary work and begin the
20 process of assembling their budgets. Thereafter, managers and executives review the
21 proposed budget and scope in a series of meetings. The resulting draft budget is then
22 submitted to the Owners.

23 Once the budget is unanimously approved by the Owners, Palo Verde leaders and
24 the Business Operations Department actively track the projects. Furthermore, to remain
25 current on status and emergent work, Business Operations analysts regularly interface with
26 leaders to monitor and assist in the oversight of costs throughout the year. This oversight
27 includes a review and challenge of costs, cost accruals and cash flow forecasts, contract
28 services, contract labor, staffing, and overtime. Site leaders also work together to determine
29 what work can be modified or deferred, to free up budget money should an emergent
30 funding need arise. Monthly Executive Cost Reports detailing all aspects of the capital
31 budget also are provided to the Owners for further information and oversight.

1
2 Q20. WHAT IS THE STRUCTURE OF THE PALO VERDE CAPITAL BUDGET?

3 A. The capital budget is organized into categories, as discussed below, which are used for
4 management and oversight of the projects in the budget.

5 1. PLANT MODIFICATIONS – Changes to the plant design, including simulator and
6 process computers, but excluding all Water Resources Facility items and
7 non-power block buildings.

8 2. PLANT EQUIPMENT & REPLACEMENTS – This category includes the two
9 following groups:

10 • TOOLS AND EQUIPMENT – Used predominantly to perform routine and
11 repetitive maintenance, construction, and training activities. This excludes
12 items incidental with the purchase of other systems, equipment, and
13 consumable materials.

14 • REPLACEMENTS – Replacement of Retirement Units "in kind" or intended
15 to be "in kind," excluding items which are included in General Plant,
16 Computers, or the Water Resources Facility.

17 3. BUILDINGS – Initial construction and qualified remodel as required of buildings
18 structures and facilities, including roof replacements and initial furnishings.

19 4. GENERAL PLANT – Predominantly consists of communications-related
20 equipment, rolling stock (vehicles), land purchases, and road and parking lot
21 installation.

22 5. INFORMATION TECHNOLOGY ("IT") – Non-process computer hardware and
23 software, computer license agreements, and miscellaneous computer equipment in
24 support of Plant activities including Nuclear Fuel Management.

25 6. WATER RESOURCES FACILITY – All water resources facility modifications,
26 replacements, and process computers not covered in other categories.

27 7. OVERHEADS – Overheads in support of Capital Improvements and Distributables
28 in support of Plant Modifications and Plant Replacements.

29 8. EMERGENT WORK FUND – Funding for any emergent capital projects not
30 individually identified or budgeted or for unexpected costs identified during
31 previously planned capital project development or implementation.

1
2 Q21. CAN YOU DESCRIBE DISTRIBUTABLE AND OVERHEAD COSTS IN MORE
3 DETAIL?

4 A. Distributable and Overhead costs are incurred for the overall support of the capital
5 programs and personnel. These costs are charged to the capital projects monthly. The
6 Overheads budget category includes costs that are incurred in support of capital projects
7 by Palo Verde Supply Chain Management, Business Operations, and other groups.
8 Distributables include personnel support for project management and includes mainly
9 planners and schedulers for plant design modifications.
10

11 Q22. ARE THERE FURTHER REVIEWS OF THE CAPITAL BUDGET BY PROJECT?

12 A. Yes. As previously discussed, Capital budget approval only indicates Owner concurrence
13 to fund the capital project program at a certain level for a budget year. Projects are
14 presented individually to the E&O Committee throughout the year using Work
15 Authorization packages that include a business case and financial analysis for the proposed
16 project. Projects above \$500,000 must be approved by both the E&O and the
17 executive-level Administrative Committees. Except for emergent issues that must be
18 addressed immediately, APS may not spend money or otherwise proceed with project
19 implementation until the project has been reviewed and approved by the applicable Owner
20 Committee(s). This process allows Owners the opportunity to review and ask questions
21 about proposed projects to help ensure that these investment expenditures serve customer
22 interests and allow the site to adapt to changing conditions as needed.
23

24 Q23. WHAT DO YOU CONCLUDE ABOUT THIS PROCESS FOR THE REVIEW AND
25 APPROVAL OF CAPITAL EXPENDITURES?

26 A. The process of review and approval of capital expenditures is designed to ensure that
27 proposed projects undergo several layers of scrutiny and review to demonstrate they are
28 necessary and reasonable. Review and approval are required by PVGS management and
29 also requires unanimous approval of the Owners. The approval process ensures that capital
30 improvements at PVGS are consistent with the needs of all the Owners and in the interest
31 of their customers.

1
2 **B. PVGS Capital Additions to Rate Base**

3 Q24. HOW HAVE YOU ORGANIZED THIS PART OF YOUR TESTIMONY?

4 A. In this part of my testimony, I discuss the capital projects at Palo Verde that have been
5 added since the test year in Docket No. 52195 and that EPE seeks to include in the rate
6 base, as explained by EPE witnesses Cindy Prieto and Victor Martinez. I first identify what
7 those capital additions are, then I discuss in more detail major individual capital addition
8 projects with significant costs, explaining why they were undertaken and general project
9 management of each. All project costs as stated are total plant dollars. Last, I address the
10 remaining projects, by category, using the categories of capital projects outlined above.
11

12 Q25. AT THE OUTSET, IS THERE ANY EVALUATION AND APPROVAL PROCESS TO
13 WHICH ALL OF THESE PROJECTS WERE SUBJECT?

14 A. Yes, there is. All of the capital additions and projects I discuss were subject to the same
15 budget and project management and oversight processes discussed previously.
16

17 Q26. WHERE ARE THE CAPITAL PROJECTS AT PALO VERDE SINCE THE END OF
18 THE TEST YEAR IN EPE'S LAST RATE CASE, DOCKET NO. 52195 IDENTIFIED?

19 A. Schedule H-5.2a includes a list of all Palo Verde capitalized projects being requested in
20 rate base with actual costs of \$100,000 or more (EPE share). Additional information about
21 Palo Verde capital expenditures of \$100,000 or more (EPE share) for the previous five
22 years and the Test Year (together with projected projects for the next three years) is in
23 Schedule H-5.3a. The major capital projects are discussed in more detail below.
24

25 Q27. HOW MUCH IN RATE BASE ADDITIONS IS THE COMPANY SEEKING FOR
26 PALO VERDE?

27 A. The testimony of EPE witness Victor Martinez supports the rate base additions EPE is
28 seeking in this case for Palo Verde.
29

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1 **a. S.C.O.R.E. Supply Chain Optimization Project**

2 **(Budget Category – Information Technology)**

3 Q29. WHAT IS THE S.C.O.R.E. SUPPLY CHAIN OPTIMIZATION PROJECT?

4 A. The purpose of the S.C.O.R.E. (Supply Chain Optimization and Reliability Efficiency)
5 Project was to replace the legacy supply chain management software system known as
6 MLIS (Material Logistics Information System). The replacement of MLIS supported
7 ongoing changes and implementation of newer technology around supply chain, work
8 management, and procurement.

9 The MLIS replacement project was under the SCORE program and is the focus of
10 the Supply Chain Optimization effort. PVGS has been using MLIS for over a decade and
11 has integrated MLIS into multiple supporting software suites across the plant. The plant
12 benefits included reduction of manual intervention procurement process, improvement in
13 cost management for supplier agreements, strategic sourcing and purchasing, and reduction
14 in excess inventory over a period of time.

15
16 Q30. WHAT WAS THE TOTAL COST OF S.C.O.R.E. SUPPLY CHAIN OPTIMIZATION?

17 A. The total cost of the S.C.O.R.E. Supply Chain Optimization Project was \$41.9 million.
18

19 **b. Digital Site Modernization (SMP) Project Phase II, Unit 1 and 3**

20 **(Budget Category – Plant Modifications)**

21 Q31. WHAT IS THE DIGITAL SITE MODERNIZATION (SMP) PROJECT PHASE II, UNIT
22 1 AND 3?

23 A. The purpose of the Strategic Modernization Program is to replace several plant control
24 systems, both analog and digital with newly designed and upgraded equipment. The
25 intention of this upgrade is to address obsolescence, remove single point vulnerabilities
26 where practical, improve Human-Machine interfaces, and minimize spare part inventories.
27 This will be accomplished by utilizing to the extent practical a single digital platform.

28 The Strategic Modernization Program Phase II focus was on the replacement of the
29 Control Element Drive Mechanism Control System (CEDMCS) and Motor Generator
30 (MG) sets in all three units and update both simulators. Replacement of support functions
31 was completed online, including performing cable pulls, adding structural supports and

1 staging material and equipment. Outage scope focused on removing the existing CEDMCS
2 cabinets and replacing with the Advanced Rod Control Hybrid (ARCH) system, MG set
3 and cabinet replacement, as well as Main Control Room modifications. The outage work
4 scope was completed with Design Validation Testing (DVT) for the MG sets and the
5 ARCH systems, ensuring the equipment is fully integrated and ready to perform its
6 function.

7 The Control Element Drive Mechanism Control System (CEDMCS) system was a
8 major plant reliability issue over the last several years. The replacement resolved the legacy
9 parts quality issues that have reduced system reliability resulting in increased operator
10 burden, additional operator rounds, and plant maneuvers.

11
12 Q32. WHAT WAS THE TOTAL COST OF THE DIGITAL SITE MODERNIZATION (SMP)
13 PHASE II, UNIT 1 AND 3 PROJECT?

14 A. The combined total cost of the Digital Site Modernization (SMP) Projects was \$62.1 million.
15

16 **c. Clarifier Life Extension Project Train 1, 4 and 6**
17 **(Budget Category – Water Reclamation Facility)**

18 Q33. WHAT IS THE CLARIFIER LIFE EXTENSION FOR TRAIN 1, 4, AND 6?

19 A. The purpose of the Solid Contact Clarifier Life Extension Train 1, 4, and 6 project was to
20 replace a clarifier train which are an essential system at the Water Resources Facility, and
21 is comprised of components that make up one of the process steps to treat effluent water
22 from the SROG 91st Avenue and the City of Tolleson Waste Water Treatment Plants prior
23 to the water's use as cooling tower makeup.

24 Each clarifier train has the capacity to process 10,000 gallons per minute (gpm), for
25 a total of 60,000 gpm. There are six clarifier trains, and each is designated as a Solid
26 Contact Clarifier. The Solid Contact Clarifier equipment in trains 1, 4, and 6 had exceeded
27 their useful life and were showing signs of degradation. In order to extend the life of the
28 clarifier, the replacement or refurbishment of equipment was required, including rake and
29 turbine drive systems, sludge pumps and piping, launders and reaction well,
30 interconnecting large bore piping, small bore piping for process water, compressed air,

lime slurry and soda ash, concrete tanks repairs, electrical controls, wiring and switches, structural steel, reaction well and cathodic protection system.

Q34. WHAT WAS THE TOTAL COST OF THE CLARIFIER LIFE EXTENSION FOR TRAIN 1, 4, AND 6?

A. The total cost of the Clarifier Life Extension for Train 1, 4, and 6 was \$72.5 million.

d. Spray Pond (SP) Concrete Replacement Project Unit 1 and 3
(Budget Category – Equipment and Replacements)

Q35. WHAT IS THE SPRAY POND (SP) CONCRETE REPLACEMENT UNIT 1 AND 3?

A. The purpose of the Spray Pond (SP) Concrete Replacement Project Unit 1 and 3 was in support of the Essential Spray Ponds (ESPs). The ESPs comprise the Ultimate Heat Sink (UHS) for the unit which is relied upon to remove heat from the Reactor/Core during normal or emergency shutdown of the plant. Each ESP Train supplies cooling water to the Essential Cooling Water System (EW) and Emergency Diesel Generators (EDGs). The UHS maintains a water volume that enables a train of ESP System to operate continuously for 26 days, post-accident, without make-up water. After 30 years in service, the above-grade section of the reinforced concrete perimeter walls was subjected to repeated wet/dry cycles. The top of the walls exhibited degradation/distress, which included cracking, delamination, and spalling caused by chloride-ion induced corrosion of the steel reinforcement.

The project focus was on the replacement of the degraded concrete using a commercial grade dedicated concrete. By performing the repair of the wall using the Commercial Grade Dedication process for concrete repair it allowed Palo Verde to recover design margin for the Spray Pond and substantially reduce the overall project cost for concrete. In addition, the replacement satisfied an NRC regulatory requirement for license renewal.

Q36. WHAT WAS THE TOTAL COST OF THE SPRAY POND (SP) CONCRETE REPLACEMENT UNIT 1 AND 3 PROJECT?

1 A. The total cost of the Spray Pond (SP) Concrete Replacement Unit 1 and 3 was \$33.3
2 million.

3
4 **e. Low Pressure (LP) Feedwater Heater Replacement Project Unit 1 and 3**
5 **(Budget Category – Equipment and Replacements)**

6 Q37. WHAT IS THE LOW PRESSURE (LP) FEEDWATER HEATER REPLACEMENT
7 PROJECT UNIT 1 AND 3?

8 A. The purpose of the Low Pressure (LP) Feedwater Heater Replacement Project Unit 1 and 3 is to
9 replace the heat exchangers installed inside the condensers which pre-heat feed water that
10 is then delivered to the steam generators. Pre-heating the feed water improves the
11 thermodynamic efficiency of the steam cycle. Each unit has 3 condensers, each with 4 low
12 pressure feed water heaters. Due to the system design, certain heating stages incur
13 considerably more wear than others. Due to their age and condition, the low-pressure
14 feedwater heaters were experiencing tube failures, resulting in the need for replacement.
15 The project scope for Phase 1 included initial project engineering and planning, 3D laser
16 scan of condensers, construction and installation of heater support structures to extract the
17 existing heaters and replacement of the low-pressure feedwater heater.

18
19 Q38. WHAT WAS THE TOTAL COST OF THE LOW PRESSURE (LP) FEEDWATER
20 HEATER REPLACEMENT PROJECT?

21 A. The total cost of the Low-Pressure Feedwater Heater Replacement Unit 1 and 3 was \$30.1
22 million.

23
24 **2. Remaining Capital Projects**

25 Q39. HOW ARE YOU ADDRESSING THE REMAINING CAPITAL ADDITION PROJECTS?

26 A. I address the remaining capital additions using the categories described previously.
27 Table CDH-2 shows the approximate remaining capital additions placed in service from
28 the end of the previous test year through September 30, 2024, by category.

29 /

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Table CDH-2 - Major Project Categories

Work Order Description	Total Project (millions)
Plant Modifications	\$216.6
Plant Equipment & Replacements	\$306.4
Buildings	\$25.0
General Plant	\$19.9
Information Technology	\$667.7
Water Resources Facility	\$93.2
Overheads/Distributables	\$58.6
Capitalized Incentives	\$5.6
TOTAL	\$793.0

a. Plant Modifications

Q40. WHAT IS THE "PLANT MODIFICATIONS" CATEGORY OF PROJECTS?

A. The Plant Modifications category covers changes to the plant design, including simulator and process computers, but excludes all Water Resources Facility items and non-power block buildings. It includes NRC and other regulatory mandates such as State of Arizona environmental requirements, safety improvements, plant availability improvements, and improvements made for other economic reasons.

Q41. WHAT IS AN EXAMPLE OF PLANT MODIFICATIONS?

A. An example of a plant modification project is the Normal Chiller Replacement for U1/U2/U3. Project scope is the replacement of all small Normal Chillers with a Modular Chiller Plant. Current Chillers are obsolete and no longer supported by the vendor.

Q42. WHY ARE PROJECTS IN THE PLANT MODIFICATIONS CATEGORY REASONABLE AND NECESSARY?

1 A. Any plant modifications that are NRC-mandated are required to continue plant operation.
2 Other projects are reasonable and necessary to maintain high-capacity factors and to
3 otherwise improve PVGS performance.
4

5 Q43. WHAT WAS THE TOTAL CAPITAL COST OF THE PLANT MODIFICATIONS
6 CATEGORY OF PROJECTS OVER THE TIME PERIOD IN QUESTION?

7 A. The total cost of this category was approximately \$216.6 million.
8

9 **b. Plant Equipment and Replacements**

10 Q44. WHAT DOES THE PLANT EQUIPMENT AND REPLACEMENTS CATEGORY
11 INCLUDE?

12 A. The Plant Equipment category includes two subcategories: (1) Tools and Equipment and
13 (2) Replacements. The Tools and Equipment subcategory is used predominantly to perform
14 routine and repetitive maintenance, construction, and training activities. This excludes
15 items incidental to the purchase of other systems, equipment, and consumable materials.

16 The Replacements subcategory pertains to Replacement of Retirement Units "in
17 kind" or intended to be "in kind," excluding items which are included in General Plant,
18 Computers or the Water Resources Facility.
19

20 Q45. WHAT ARE SOME EXAMPLES OF THE PLANT EQUIPMENT AND
21 REPLACEMENTS CATEGORY?

22 A. One example of the plant equipment and replacements category in the replacement category
23 tools and equipment subcategory is Site Tools & Equipment. The Site Tools & Equipment
24 project is specific to each year and is intended to capture the purchase of specialized tooling
25 over \$1,000. One example of the plant equipment and replacement category in the equipment
26 subcategory is the Low-Pressure Feedwater Heater Replacement.
27

28 Q46. WHY ARE PROJECTS IN THIS CATEGORY REASONABLE AND NECESSARY?

29 A. These projects are needed to replace aging equipment, to ensure reliable unit operations for
30 the Owners and their customers.
31

1 Q47. WHAT WAS THE TOTAL CAPITAL COST OF THE PLANT EQUIPMENT AND
2 REPLACEMENTS CATEGORY OF PROJECTS OVER THE TIME PERIOD IN
3 QUESTION?

4 A. The total cost of this category was approximately \$ 306.4 million.
5

6 **c. Buildings**

7 Q48. WHAT DOES THE BUILDINGS CATEGORY INCLUDE?

8 A. The Buildings category includes initial construction and qualified remodeling of all
9 buildings, structures, and facilities, including roof replacements and initial furnishings.
10

11 Q49. WHAT IS AN EXAMPLE OF A BUILDING CATEGORY PROJECT?

12 A. An example of a Building Category Project is the Building A Cafeteria Refurb. This project
13 replaced degraded cafeteria appliances and modernized the server areas to promote
14 employee collaboration.
15

16 Q50. WHY ARE PROJECTS IN THE BUILDINGS CATEGORY REASONABLE AND
17 NECESSARY?

18 A. The projects are needed to construct and upgrade Palo Verde buildings to maintain and
19 enhance Palo Verde's operational support.
20

21 Q51. WHAT WAS THE TOTAL CAPITAL COST OF THE BUILDINGS CATEGORY?

22 A. The total cost of this category was approximately \$25.0 million.
23

24 **d. General Plant**

25 Q52. WHAT DOES THE GENERAL PLANT CATEGORY INCLUDE?

26 A. The General Plant category predominantly consists of communications-related equipment,
27 rolling stock, land purchases, station security, and road and parking lot installation.
28

29 Q53. WHAT IS AN EXAMPLE OF THE GENERAL PLANT CATEGORY?

1 A. An example of a General Plant Project is the yearly Vehicle Replacement project. This
2 project systematically replaces old trucks, carts, and forklifts when they exceed their useful
3 life.

4
5 Q54. WHY ARE PROJECTS IN THE GENERAL PLANT CATEGORY REASONABLE AND
6 NECESSARY?

7 A. They are needed to maintain routine support equipment and infrastructure and employee
8 safety in general plant areas. This also includes projects such as vehicle purchases, road
9 work, and sidewalk repair.

10
11 Q55. WHAT WAS THE TOTAL CAPITAL COST OF THE GENERAL PLANT
12 CATEGORY?

13 A. The total cost of this category was approximately \$19.9 million.

14
15 **e. Information Technology**

16 Q56. WHAT DOES THE INFORMATION TECHNOLOGY CATEGORY INCLUDE?

17 A. The Information Technology category includes non-process computer hardware and
18 software, computer license agreements, and miscellaneous computer equipment in support
19 of Plant activities including Nuclear Fuel Management.

20
21 Q57. WHAT IS AN EXAMPLE OF THE INFORMATION TECHNOLOGY CATEGORY

22 A. One example is Electronic Work Package ("eWP") project. Project scope is to upgrade
23 specific components of the Site Workforce Management System ("SWMS") software to
24 enhance functionality of the work order and procedure modules to enable individuals to
25 access these modules from hand-held devices, to improve workflow and worker efficiency.

26
27 Q58. WHY ARE PROJECTS IN THIS CATEGORY REASONABLE AND NECESSARY?

28 A. This category of projects is reasonable and necessary because it provides non-process
29 computer hardware and software, computer license agreements, and miscellaneous
30 computer equipment in support of plant activities including nuclear fuel management
31 evaluations.

1
2 Q59. WHAT WAS THE TOTAL CAPITAL COST OF THE INFORMATION TECHNOLOGY
3 CATEGORY OF PROJECTS OVER THE TIME PERIOD IN QUESTION?

4 A. The total cost of this category was approximately \$ 67.7million.
5

6 **f. Water Resources Facility**

7 Q60. WHAT DOES THE WATER RESOURCES FACILITY CATEGORY INCLUDE?

8 A. The Water Resources Facility category includes all Water Resources Facility
9 modifications, replacements, and process computers not covered in other categories.
10

11 Q61. WHAT IS AN EXAMPLE OF THE WATER RESOURCES FACILITY CATEGORY?

12 A. An example of a project is the AB Acid Tanks Replacement. Project scope to replace tanks
13 with improved life expectancy and refurbish the containment trench.
14

15 Q62. WHY ARE PROJECTS IN THE WATER RESOURCES FACILITY CATEGORY
16 REASONABLE AND NECESSARY?

17 A. The Water Resources Facility supplies water required for plant operation.
18

19 Q63. WHAT WAS THE TOTAL CAPITAL COST OF THE WATER RESOURCES
20 FACILITY CATEGORY OF PROJECTS OVER THE TIME PERIOD IN QUESTION?

21 A. During this test period, the total Water Resources Facility capital cost was approximately
22 \$93.2 million.
23

24 **g. Overheads and Distributables**

25 Q64. HOW DOES PVGS HANDLE OVERHEADS?

26 A. The Overheads budget category includes costs incurred in support of Capital Improvements
27 and Distributables, Plant Modifications, and Plant Replacements. Since it is not practical
28 to assign certain costs to individual projects, the "Overheads" budget category accounts for
29 them. In general, the finance, procurement, stores, and contracts group are included. These
30 areas are given an allocation from the Capital Budget to account for their contributions to

1 all capital projects. Each month all charges to the Overhead project are allocated to all
2 capital projects according to the amount spent during the month.

3
4 Q65. WHAT ARE SOME EXAMPLES OF THE OVERHEADS?

5 A. Overhead expenses include support personnel who, broadly, work on capital projects.
6 These costs also include a portion of PVGS personnel in the Business Operations group
7 and some Supply Chain personnel who address capital materials issues. They also include
8 insurance costs. Overhead dollars are allocated proportionally across capital projects that
9 had spending during the month.

10
11 Q66. DO THE PROJECT COSTS PREVIOUSLY DISCUSSED INCLUDE OVERHEAD
12 COSTS?

13 A. No. Overhead costs are not included in the project cost estimates approved by Owners but
14 are later applied by accounting as projects and are shown as construction work in progress
15 and later also in amounts transferred to plant in service. The budget to fund the Overheads
16 category is approved by the Owners in the annual budget review process.

17
18 Q67. WHY ARE THE OVERHEADS REASONABLE AND NECESSARY?

19 A. Business Operations, Warehouse, Supply Chain, and other similar departments account for
20 the capital expenditures, issue capital purchase orders, fulfill material requests, organize
21 capital expenditures, and provide other necessary support for capital projects. These
22 functions are necessary to support capital projects but are administratively impracticable
23 to assign to specific projects so are allocated across all capital projects.

24
25 Q68. HOW DOES PVGS HANDLE DISTRIBUTABLES?

26 A. Distributables include personnel support for project management personnel, mainly
27 planners and schedulers for projects that constitute changes in plant design called
28 modifications. These areas are given an allocation from the Capital Budget account for
29 their contributions to capital projects related to the physical Units. Each month, charges to
30 the Distributables project are allocated to capital Plant Modification type projects
31 according to the amount spent during the month.

1
2 Q69. WHAT ARE SOME EXAMPLES OF THE DISTRIBUTABLES COST CATEGORY?

3 A. Examples of the Distributables Cost Category include the following: (i) support personnel
4 charges in support of project management and scheduling, (ii) costs that are incurred in the
5 overall support of modifications in the capital program, and (iii) charges for APS personnel
6 and supplemental labor that support project management and scheduling Palo Verde
7 modifications. These costs are allocated to the capital projects on a monthly basis as
8 discussed earlier in the discussion of overhead cost allocation.
9

10 Q70. ARE THE COSTS OF DISTRIBUTABLES INCLUDED IN THE COSTS OF THE
11 CAPITAL PROJECTS YOU JUST DISCUSSED, BOTH THE INDIVIDUAL MAIN
12 PROJECTS AND THE CATEGORIES OF PROJECTS?

13 A. No, they are not included in the cost of projects discussed above. They are discussed
14 separately.
15

16 Q71. WHY ARE PROJECTS IN THIS CATEGORY REASONABLE AND NECESSARY?

17 A. The prudent management of projects requires professional personnel to manage the cost
18 and schedule. Project Management and Business Operations personnel administer the
19 capital program by developing cost analyses and budgets for the program and monitoring
20 projects to track expenses and work plans.
21

22 **V. PVGS Operation and Maintenance ("O&M") Expense**

23 Q72. ARE YOU PRESENTING EPE'S COST OF SERVICE REQUEST FOR PALO VERDE
24 O&M EXPENSE?

25 A. No, I am not. EPE witness Victor Martinez presents EPE's cost of service request for
26 Palo Verde. However, I support that request by providing information about O&M costs
27 and practices at Palo Verde.
28

29 Q73. WHAT IS THE PALO VERDE APPROACH TO EFFICIENT O&M MANAGEMENT?

1 A. O&M expenses represent the costs required to operate equipment or facilities from
2 day-to-day or to maintain equipment and facilities in good operating condition, including
3 but not limited to labor and material costs.

4 Labor costs include both direct and contract employee expenditures to support plant
5 requirements, overtime, and other related spend such as payroll taxes, benefits, and
6 pensions. Material costs include items such as plant equipment, tools, chemicals, protective
7 clothing, and office expenditures. While managing costs are an important focus at
8 Palo Verde, it is equally important to maintain a qualified workforce as well as the
9 equipment that produces reliable power for the Palo Verde Owners.

10 Palo Verde manages O&M costs through a variety of initiatives. Examples of those
11 initiatives are discussed below:

- 12 • Palo Verde is utilizing strategic alliances when selecting vendors for contracting
13 services and material purchases (e.g., the Strategic Teaming and Resource Sharing
14 ("STARS") alliance). Membership in STARS provides a fleet-like advantage to four
15 independently operated nuclear power plants, Diablo Canyon, Wolf Creek, Calloway,
16 and Palo Verde, which all have similar Pressurized Water Reactor designs. The alliance
17 results in reduced costs and improved performance.
- 18 • The average outage length has remained consistent at 35 days over the last 5 years
19 (2021 – 2024). Palo Verde continues to focus on achieving more effective refueling
20 outages, which reduce costs by reducing the amount of time that outage contractors are
21 needed. Effective outages usually result in improved annual net generation.

22
23 Q74. HOW DOES PVGS' COMPENSATION STRATEGY SUPPORT EFFICIENT O&M
24 MANAGEMENT?

25 A. PVGS implements the APS Total Rewards package, which includes a market competitive
26 base salary, short-term and long-term incentives, recognition programs, health and welfare
27 benefits, time off, savings and retirement programs and career development and
28 advancement opportunities. It is our goal to offer a competitive pay program to attract and
29 retain a high-performing workforce while managing all PVGS Owners' assets most
30 effectively. The principal compensation strategy is centered around the retention of key
31 employees using a fair and competitive analysis process. The APS and Palo Verde

1 compensation strategy includes a review of the labor market, internal equity, pay for
2 performance and cost effectiveness. Base pay and total cash compensation targets are
3 established at the 50th percentile of the competitive labor market. The company's intent is
4 to differentiate pay based on performance. High performing employees have a target base
5 pay and total cash compensation between the 50th and 90th percentiles of the competitive
6 labor market. The market pricing process is conducted annually to ensure employee pay
7 level and salary structure are competitive with the external market. The compensation and
8 benefits earned by PVGS employees are consistent with market compensation studies
9 issued not earlier than three years before the initiation of this proceeding. PVGS' effective
10 and efficient plant performance is achieved by competitively compensating the workforce
11 which ultimately impacts O&M costs.
12

13 Q75. DOES THE WATER RESOURCES FACILITY IMPACT THE YEARLY SPEND AT
14 PALO VERDE?

15 A. Yes, as already discussed, Palo Verde is the only nuclear power plant in the world that has
16 its own Water Resources Facility. Operation of the Water Resources Facility represents
17 approximately \$72.6 million in Test Year O&M costs that are not incurred by other nuclear
18 power plants. The Water Resources Facility O&M level corresponds to approximately
19 10.5% of Palo Verde's total operating cost.
20

21 Q76. HOW DOES PALO VERDE PLAN TO MANAGE COSTS GOING FORWARD?

22 A. We continue to take a measured and strategic approach to cost controls while investing in
23 the plant and people to maintain excellent material condition of the station and knowledge,
24 and performance of the people who run it for the long term. Using both data analytics and
25 employee feedback, Palo Verde is continually searching for inefficiencies embedded in
26 processes, work practices and organizational interfaces. By addressing delays that impede
27 the efficient execution of work and reviewing frequency of maintenance activities
28 Palo Verde can focus on improved work quality and reducing administrative burden and
29 costs. Palo Verde continuously looks for ways to improve so they can remain competitive
30 and invest for the future while supporting the station mission to "SAFELY produce reliable
31 and affordable clean energy for the long term".

1
2 Q77. WHAT PROGRAM OR PROCESS IS IN PLACE TO ADDRESS OVERSIGHT AND
3 MANAGEMENT OF O&M EXPENDITURES AT PVGS?

4 A. Similar to the process I described regarding the PVGS Capital budget, the O&M budget is
5 assembled each year by PVGS and submitted to the Owners for review and approval.
6 Budget assumptions are established by the Business Operations department after working
7 with department leadership at Palo Verde. Assumptions include such significant aspects as
8 PVGS staffing and duration of planned outages. This allows departments to identify
9 necessary work and to begin the process of assembling their budgets. A series of challenge
10 meetings are held involving PVGS leaders and executives to review the proposed budget
11 amounts and scope, all working towards budget submittal to the Owners. Once the budget
12 is approved, status is managed and overseen by PVGS leaders and the Business Operations
13 department. Business Operations analysts regularly interface with department leaders,
14 monitoring and assisting in oversight of costs throughout the year to update current budget
15 performance and identify emergent work. This oversight includes a review and challenge
16 of costs, cost accruals, cash flow forecasts, contract services, contract labor, staffing, and
17 overtime. PVGS leaders and Business Operations analysts then routinely meet with senior
18 Palo Verde management, where further challenges, trends, and goals are addressed. These
19 meetings are also intended to look at where budget impacts in one or more department can
20 be offset through cost savings in another department. The status is then provided in an
21 Executive Cost Report which provides further detail on aspects of the Palo Verde budgets.

22 During outages, the Business Operations department also queries cost expenditures,
23 compiling regular cost status reports that are then shared with leaders each business day.

24 The annual O&M budget must be unanimously approved by all Owners. A budget
25 update is provided to the Owners at each E&O Committee meeting, where challenges and
26 questions are presented to Palo Verde staff. Details of budget status are provided to the
27 Owners through the monthly Executive Cost Report. In addition, budget status is routinely
28 presented and discussed at meetings of the Owner Administrative Committee, which is
29 chaired by the Executive Vice President/Chief Nuclear Officer.
30

31 Q78. PLEASE DESCRIBE PVGS COST CONTROL EFFORTS?

1 A. PVGS has undertaken a focused effort to improve equipment reliability and provide its
2 owners with summer capacity since 2018. PVGS' O&M costs increased to support plant
3 reliability through a variety of efforts, as illustrated in Figure CDH-1. As a result of Palo
4 Verde's continued emphasis on balancing long-term sustainability of its workforce
5 management, operating costs have been trending upward. Additionally, due to capital
6 improvements, PVGS improved reliability and reduced outage duration, and work process
7 improvements through projects such as the Strategic Modernization Project (SMP), thereby
8 improving equipment reliability and increasing capacity factor. With rigorous oversight
9 and management of costs the plant has been able to manage its budget more efficiently and
10 perform better. The relationship of plant performance (capacity) to O&M expenditures is
11 measured by operating cost per MWh.

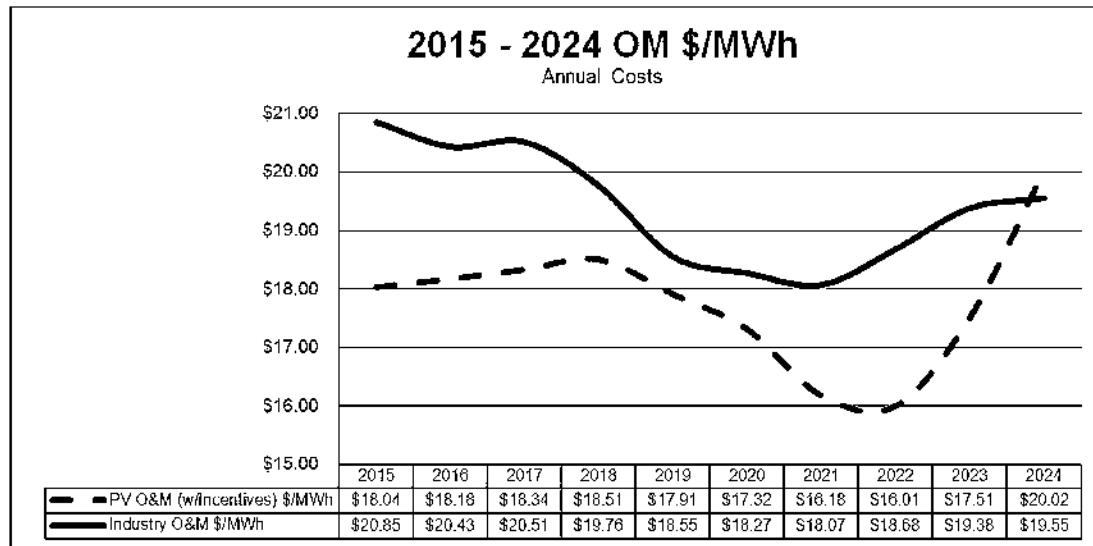
12
13 Q79. HOW DO PVGS/OPERATING COSTS COMPARE TO THE INDUSTRY?

14 A. Since PVGS is unique in the industry in supporting a Water Reclamation Facility, those
15 costs have been removed in Figure CDH-1 below to give an accurate comparison to the
16 industry. The graph below shows Electric Utility Cost Group data - comparison of
17 Palo Verde operating cost per MWh to the industry average. PVGS expenditures
18 (excluding WRF) and higher capacity factors has operating costs per MWh that were within
19 the industry average.

20 In Figure CDH-1, there is an increase that is visible over the 2022-2024 time period.
21 This increase is reflective of changes that were made particularly in staffing and
22 compensation in order to ensure the attraction and retention of quality personnel. These
23 personnel were essential to arrest a trend of declining plant performance that had been seen
24 in the years prior to the change.

25 /
26 /
27 /
28 /
29 /
30 /

Figure CDH – 1



EUCG Data – all costs are actual for the represented year.

Industry Data Source is copyrighted by EUCG, Inc.

Q80. WHAT AMOUNT OF TOTAL PVGS NON-FUEL O&M EXPENSE WAS INCURRED DURING THE TEST YEAR?

A. The amount of non-fuel, unadjusted total Palo Verde O&M cost for the Test Year was \$690.95 million. The EPE share of this was 15.8 percent.

Q81. WHAT DO YOU CONCLUDE ABOUT PVGS O&M?

A. I conclude that PVGS costs are carefully scrutinized and are reasonable and prudent. PVGS is a valuable asset to EPE and produces large quantities of safe, clean, reliable and efficient power for its customers.

VI. Conclusion

Q82. PLEASE SUMMARIZE YOUR TESTIMONY.

A. To ensure safe and reliable operation of the plant at a reasonable cost, Palo Verde takes a deliberate approach to efficient cost management. In order to meet our responsibilities to the public at large, as well as to our customers and stakeholders, we have implemented procedures and processes that will aid us in meeting those responsibilities. A safe, reliable,

1 and efficient nuclear generation facility requires capital and operating and maintenance
2 expenditures. EPE's Palo Verde cost of service request and rate base additions request for
3 PVGS are presented by witness Martinez.

4
5 Q83. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

6 A. Yes, it does.

SCHEDULES SPONSORED BY CARY D. HARBOR

Schedule	Description	Sponsorship
E-1.2	OBSOLETE ASSETS	Co-Sponsor
H-1	SUMMARY OF TEST YEAR PRODUCTION O&M EXPENSES (NUCLEAR & FOSSIL)	Co-Sponsor
H-1.1	NUCLEAR COMPANY-WIDE O&M EXPENSES SUMMARY	Co-Sponsor
H-1.1a	NUCLEAR PLANT O&M SUMMARY	Co-Sponsor
H-1.1a1	NUCLEAR UNIT O&M SUMMARY	Co-Sponsor
H-3	SUMMARY OF ACTUAL PRODUCTION O&M EXPENSES INCURRED	Co-Sponsor
H-5.2a	NUCLEAR CAPITAL COSTS PROJECTS	Co-Sponsor
H-5.3a	NUCLEAR CAPITAL EXPENDITURES (HISTORICAL, PRESENT, PROJECTED)	Co-Sponsor
H-6.1a	NUCLEAR UNIT OUTAGE HISTORY	Co-Sponsor
H-6.1b	NUCLEAR UNIT OUTAGE DATA	Co-Sponsor
H-6.3a	NUCLEAR UNIT INCREMENTAL OUTAGE COSTS	Co-Sponsor
H-12.2a	MWh PRODUCTION BY UNIT (LIGNITE, COAL & NUCLEAR	Co-Sponsor
H-12.2a1	MWh PRODUCTION BY UNIT FOR PREVIOUS 5 YRS (LIGNITE, COAL & NUCLEAR	Co-Sponsor

DOCKET NO. 57568

APPLICATION OF EL PASO	§	PUBLIC UTILITY COMMISSION
ELECTRIC COMPANY TO CHANGE	§	OF TEXAS
RATES	§	

DIRECT TESTIMONY
OF
LESLIE A. CHAGNON
FOR
EL PASO ELECTRIC COMPANY

JANUARY 2025

EXECUTIVE SUMMARY

Leslie A. Chagnon is Senior Director of Distribution Systems and Grid Modernization. She is responsible for overseeing the execution of all functions of El Paso Electric Company's ("EPE" or the "Company") Distribution Systems, Distribution Operations, and Distribution Systems Design departments with an emphasis on modernizing the distribution grid. The division's function is to ensure that the distribution system operates in a safe, reliable, and efficient manner for the benefit of EPE's customers.

Ms. Chagnon presents the Texas distribution plant additions of \$245,771,296 that were placed in service from January 2021 through September 2024 (i.e., since the end of the Test Year used in EPE's last base rate case, Docket No. 52195, through the end of the Test Year for the current proceeding). In addition, Ms. Chagnon sponsors the Test Year O&M expense for distribution on a total Company basis of \$30,938,315.63. And finally, Ms. Chagnon presents EPE's proposed changes to the distribution line extension policy as administered in the state of Texas.

Her testimony demonstrates that the costs of EPE's distribution plant additions are reasonable, necessary, prudent, and these additions are used and useful for safe, reliable, and efficient service to Texas customers. It also demonstrates that Test Year Period O&M expenses for distribution are reasonable and necessary for safe, reliable, and efficient service to Texas customers.

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XI. Additional Changes to EPE Line Extension Policy	27
XII. Conclusion	31

EXHIBITS

LAC-1 Sponsored Schedules

LAC-2 Distribution Projects less than \$5M and more than \$1M

LAC-3 Revisions to Line Extension Policy

LAC-4 Revisions to Rule 20

Acronyms	
AEP	American Electric Power
ANSI	American National Standards Institute
CIAC	Contribution in Aide of Construction
CO-OP	Cooperative
DACC	Dona Ana Community College
DCRF	Distribution Cost Recovery Factor
DOCC	Distribution Operations Control Center
EPE	El Paso Electric Company
IBEW	International Brotherhood of Electrical Workers
IVMS	Intelligent Vegetation Management System
kV	Kilovolt
Mph	miles per hour
NMPRC	New Mexico Public Regulation Commission
NV	Nevada Energy
O&M	Operations & Maintenance
OMS	Outage Management System
PNM	Public Service Company of New Mexico
PO	Purchase Order
PUCT	Public Utility Commission of Texas
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCM	Supply Chain Management
SPS	Southwestern Public Service Company
TEP	Tucson Electric Power
TSR	Transmission, Substation, & Relaying
TX	Texas
WTC	Western Technical College

I. Introduction and Qualifications

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Leslie A. Chagnon. My business address is 100 North Stanton Street, El Paso, Texas 79901.

Q2. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by El Paso Electric Company ("EPE" or the "Company") as Senior Director of Distribution Systems and Grid Modernization.

Q3. PLEASE SUMMARIZE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I have a Bachelor of Science degree in Electrical Engineering from New Mexico State University and a Master of Business Administration from University of Texas at El Paso. I am a registered Professional Engineer in the States of Texas and New Mexico. I have been employed by EPE since May of 1991. I have served the Company in the capacity of Distribution Network Engineer, Distribution Systems Engineer, Superintendent of Distribution Systems, Manager of Distribution Operations, Director of Distribution Design, Senior Director of Distribution Design, Construction and Maintenance and my current position of Senior Director of Distribution Systems Engineering and Grid Modernization.

Q4. PLEASE DESCRIBE YOUR PRINCIPAL AREAS OF RESPONSIBILITY DURING THE TEST YEAR.

A. My responsibilities were to oversee the execution of all functions of EPE's Distribution Systems, Distribution Operations, and Distribution Systems Design Departments with an emphasis on modernizing the distribution grid. The Distribution Systems team is responsible for long-term planning of the distribution grid, recommending maintenance activities to improve the system, and providing reliable and quality electric service to customers. The Distribution Operations team is charged with the safe, efficient, and reliable operation of the distribution system.

II. Purpose of Testimony

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the reasonable, necessary, and prudent costs to provide safe, reliable, and efficient distribution electric service to EPE's customers. My testimony addresses the following topics:

- The organizational structure of EPE's Distribution Division and the functions and services within the division.
- A description of EPE's distribution system and how EPE plans and operates its distribution system.
- The quality of service and reliability of EPE's Energy Delivery system.
- EPE's distribution capital investments placed in service from January 1, 2021, the Test Year-end in EPE's last rate case, Docket No. 52195, through September 30, 2024, the Test Year-end in this current case.
- EPE's Operations and Maintenance ("O&M") costs associated with EPE's distribution system during the Test Year.
- EPE's proposed solutions to a series of large load request scenarios.
- EPE's proposed changes to its Line Extension Policy should be adopted.

Q6. WHAT RATE CASE SCHEDULES DO YOU SPONSOR?

A. The schedules that I sponsor, or co-sponsor, are identified in Exhibit LAC-1.

Q7. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING OR CO-SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, they were.

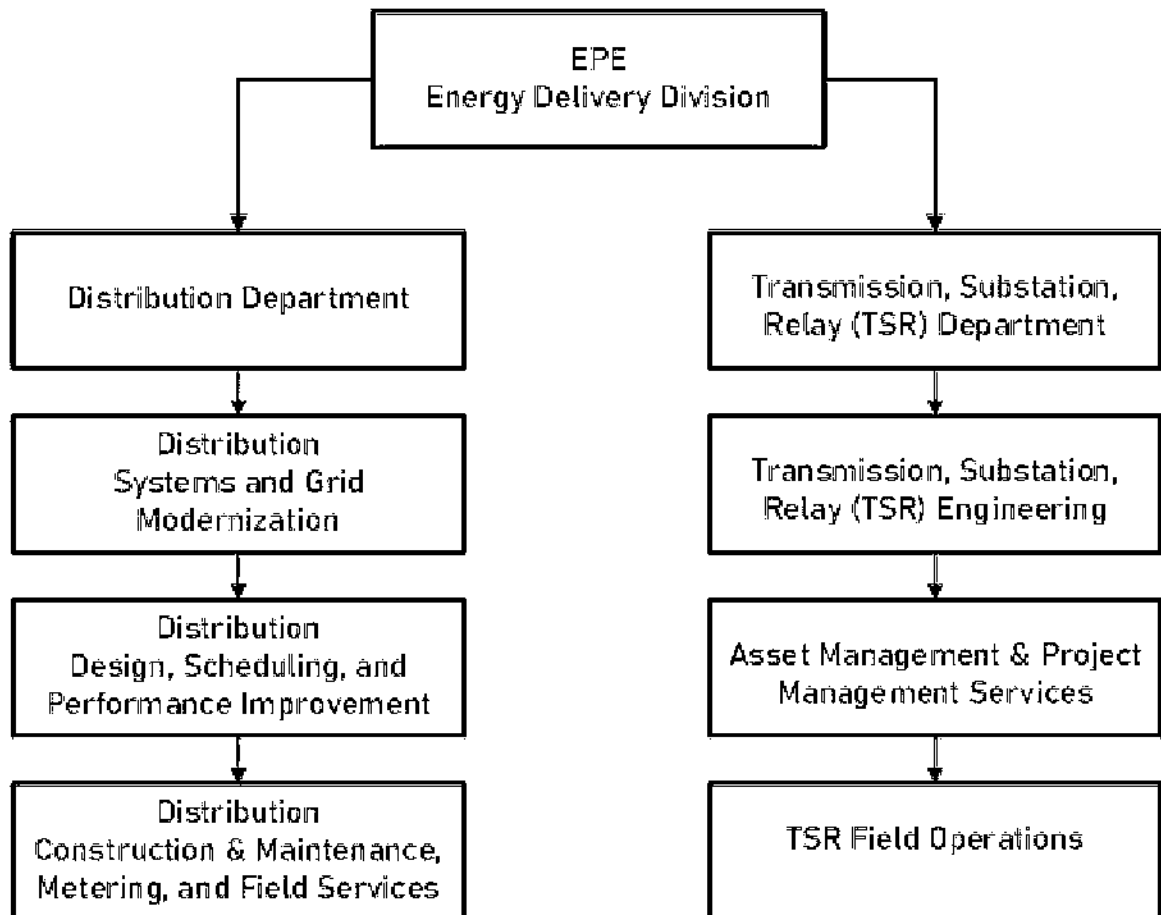
III. Distribution Division Organizational Structure

Q8. PLEASE DESCRIBE THE ORGANIZATIONAL STRUCTURE OF EPE'S DISTRIBUTION DIVISION DURING THE TEST YEAR PERIOD.

A. To further improve on existing efficiencies, the Energy Delivery Division has recently undergone a reorganization with the changes going into effect in the first quarter of 2025.

Although the reporting structure was changed, the job duties and functions of each department remain the same. My testimony will address the organizational structure that was in place during the test year, as shown below in Figure LAC-1. EPE's Distribution Division was composed of one field operations department and two engineering and operational support departments. The field operations department was the Distribution Construction & Maintenance, Metering, and Field Services Department. The two engineering and operational support departments were the Distribution Systems & Grid Modernization Department and the Distribution Design, Scheduling, and Performance Improvement Department.

Figure LAC-1



The distribution field operations department is responsible for the physical construction and maintenance of the distribution system. All EPE's union workforce, or skilled labor of

1 the Distribution Division, reported through the Distribution Construction & Maintenance,
2 Metering and Field Services Department. The Distribution Systems and Grid
3 Modernization Department is responsible for distribution system planning, modernizing
4 the distribution grid with the installation of technology, and operational control of the
5 distribution system. The Distribution Design, Scheduling and Performance Improvement
6 Department is responsible for designing the electrical service for new customers on the
7 distribution system, scheduling the construction of distribution projects built by EPE and
8 contractor crews, and tracking performance of the team with various performance metrics.
9 The Distribution Systems and Grid Modernization Department has a staff of engineers,
10 distribution operators, and an administrative position. The Distribution Design,
11 Scheduling, and Performance Improvement Department has a staff of engineers, technical
12 specialists, field coordinators, and administrative positions.

13
14 Q9. DOES THE DISTRIBUTION DIVISION HAVE ANY PROGRAMS TO SUPPORT
15 INTEREST IN DISTRIBUTION CAREERS AND OTHER OPPORTUNITIES TO JOIN
16 EPE'S WORKFORCE?

17 A. Yes, the Distribution Division occasionally participates in, and benefits from, a College
18 Internship Program. This internship program is designed to provide valuable on-the-job
19 experience in one of our corporate divisions and advance the participants' technical,
20 leadership and professional competencies through challenging work projects and training.
21 This unique program allows participants to network with executives and business leaders
22 in the Company, gain electrical utility work experience, and build transferable skills such
23 as problem-solving, teamwork, and effective communication. This paid program recruits
24 rising seniors and graduate students from colleges and universities throughout the country
25 who have a vested interest in the power industry with the goal of returning that talent to
26 El Paso, Texas, or Las Cruces, New Mexico, upon graduation.

27
28 Additionally, EPE has partnered with the Doña Ana Community College ("DACC") in its
29 Line-worker Certification Program to promote, train, support, and develop individuals who
30 are interested in a career in the various skilled positions within the electric utility industry.
31 The DACC Line-worker Certification Program includes two semesters of course work with

1 physical and technical field training followed by a 10-week internship with an electric
2 utility (investor-owned electric utility or a rural electric co-op). EPE, working in
3 conjunction with DACC, recruits eight students to the program each year. EPE also
4 provides tuition scholarships for those qualified and the 10-week internship to finish their
5 certification. The EPE/DACC Line-worker Certification Program partnership has been in
6 place for eleven consecutive years and has been tremendously successful in attracting and
7 retaining motivated individuals to EPE's skilled workforce. Most of the students who
8 successfully complete their DACC Line-worker Certification (including their 10-week
9 working internship with EPE) have been hired on to EPE full-time.

10
11 EPE has established a similar partnership in its Texas jurisdiction with Western Technical
12 College ("WTC") with the first class starting in May of 2024. WTC is composed of a
13 12-week, 40-hour per week, course with physical, technical field training followed by a
14 10-week working internship with an electric utility (investor-owned electric utility or a
15 rural electric co-op). As with the DACC partnership, EPE recruits eight students to the
16 program each year. EPE also provides tuition scholarships for those qualified, and the
17 10-week internship to finish their certification.

18
19 Q10. DOES THE DISTRIBUTION DIVISION PROVIDE ANY ON THE JOB TRAINING
20 FOR THE LINE-WORKER WORKFORCE ONCE THEY JOIN EPE?

21 A. Yes, upon joining EPE's line-worker workforce, an individual can join EPE's International
22 Brotherhood of Electrical Workers ("IBEW") apprenticeship program. Upon completion
23 of the apprenticeship, the employee will be a full-time lineman. EPE has also completed
24 construction of a new modern training center with advanced media classrooms and fully
25 operational outdoor training yards for crews. EPE also invested in an outdoor distribution
26 training simulator that provides voltage without the hazardous arc flashes and fault
27 currents. Figure LAC-2 shows the new training center and field equipment used for
28 training:

29 /

30 /

31 /

Figure LAC-2



Q11. DOES THE DESCRIBED DISTRIBUTION STRUCTURE AND ORGANIZATION PROVIDE FOR AN EFFECTIVE AND EFFICIENT OPERATION?

A. Yes. EPE has focused on conducting distribution operations efficiently while providing safe and reliable service. The described organization has allowed for distribution to leverage synergies and maximize coordination across the division. EPE's high and consistent performance in reliability as measured by System Average Interruption Duration Index ("SAIDI") and the System Average Interruption Frequency Index ("SAIFI") provides an indicator for the effectiveness of EPE's Energy Delivery Division. EPE's SAIDI and SAIFI performance is discussed below in Section V. The efficiency of EPE's distribution operations can be gauged, in part, by EPE's O&M cost in comparison to other utilities, which is also discussed below in Section IX. of my testimony. The comparison in O&M cost indicates EPE's Distribution O&M cost compares favorably to peer electric utilities.

IV. EPE's Distribution System

Q12. PLEASE DESCRIBE THE ROLE OF THE DISTRIBUTION SYSTEM IN DELIVERING POWER TO EPE'S RETAIL CUSTOMERS.

A. The distribution system is the customer connection level of an electric utility's energy delivery system. Physically, the distribution system is the collection of electric lines that run down streets and alleys, and to which all homes and businesses are connected. All distribution lines originate at a substation where a transformer reduces (or "transforms") the energy delivered at transmission voltage (i.e., 69 kV and above) to energy at the lower

1 distribution voltage (i.e., 24 kV and below). The distribution lines coming out of a
2 substation are the distribution circuits or "feeders" that extend through the service area to
3 deliver electric energy to the customers. The lower distribution level voltage allows for the
4 use of smaller support structures that are easier to construct in populated areas.

5
6 The final connection between a home or business and the distribution system is
7 accomplished by yet another transformer (pole mounted or pad-mounted) that steps down
8 (again, "transforms") the energy delivered at the distribution voltage (24 kV, 14 kV, or
9 4 kV) to one of the standard service voltages for the home (120/240 Volts) or business
10 (277/480 Volts). And the physical connection of the home or business is the point of
11 metering.

12 13 **V. EPE's Overall Quality of Service**

14 Q13. WHAT IS MEANT BY THE PHRASE "QUALITY OF SERVICE"?

15 A. Quality of Service, or reliability of service, refers to the ability of electric transmission and
16 distribution systems to perform as designed: to deliver utility grade electric power to end
17 users reliably, consistently, and safely 24 hours per day, seven days per week, 365 days a
18 year.

19
20 Q14. HOW DOES EPE MEASURE THE QUALITY-OF-SERVICE IT PROVIDES TO ITS
21 CUSTOMERS?

22 A. EPE utilizes the indices defined in the Institute of Electrical and Electronic Engineers
23 Standard 1366-2012 to gauge system performance. Specifically, the two major indices are
24 SAIFI and SAIDI. EPE tracks and keeps records of every customer interruption event, by
25 jurisdiction, and reports annual SAIFI and SAIDI figures to the Public Utility Commission
26 of Texas ("PUCT") and New Mexico Public Regulation Commission ("NMPRC").

27
28 Q15. CAN YOU DESCRIBE THE SYSTEM AVERAGE INTERRUPTION FREQUENCY
29 INDEX ("SAIFI")?

30 A. Yes. The SAIFI refers to the average number of times that a customer connected to an
31 electric power system experienced an outage over a given period. It is calculated by

1 dividing the total number of customer interruptions during a given period by the total
2 number of customers being served over that same period.

3
4 Q16. CAN YOU DESCRIBE THE SYSTEM AVERAGE INTERRUPTION DURATION
5 INDEX ("SAIDI")?

6 A. Yes. The SAIDI refers to the average outage duration, in minutes, that a customer
7 connected to an electric power system experienced over a given period. It is calculated by
8 dividing the total customer interruption minutes for a given period by the total number of
9 customers being served over that same period.

10
11 Q17. DOES THE PUCT REQUIRE TEXAS ELECTRIC UTILITIES TO REPORT THE SAIFI
12 AND SAIDI INDICES FOR THE UTILITY'S TEXAS JURISDICTION?

13 A. Yes. Since 1996, the PUCT has required each electric utility within its jurisdiction to report,
14 annually, its reliability indices in a specific format known as the Service Quality Report.

15
16 Q18. PLEASE DESCRIBE THE MOST SIGNIFICANT INFORMATION THAT THE PUCT
17 REQUIRES IN ITS ANNUAL SERVICE QUALITY REPORT.

18 A. The PUCT's annual Service Quality Report requires each electric utility to report the SAIFI
19 and SAIDI indices for the utility's Texas jurisdiction (total Texas jurisdiction system), the
20 SAIFI and SAIDI indices for each individual distribution circuit (feeder) that serves more
21 than 10 customers, as well as a listing of outage cause types. For the feeder specific indices
22 (SAIFI and SAIDI), the PUCT report also requires a comparative ranking of all feeders
23 and therefrom identification of the 10% "worst performing circuits" (feeders).

24
25 Q19. AS MEASURED BY SAIFI AND SAIDI, WHAT HAS BEEN THE LEVEL OF EPE'S
26 QUALITY OF SERVICE?

27 A. EPE gauges its overall quality of service performance by comparison of EPE's SAIFI and
28 SAIDI metrics to those of the other eight Texas utilities. The comparison group of other
29 Texas utilities includes Texas-New Mexico Power Company; Entergy Texas, Inc.;
30 CenterPoint Energy Houston Electric, LLC; American Electric Power ("AEP") Texas, Inc.;
31 AEP Southwestern Electric Power Company; Oncor Electric Delivery Company LLC;

Oncor Electric Delivery; North Texas Utility/Legacy Sharyland; and Xcel Energy (Southwestern Public Service Company).

Reliability indices compiled by the Commission show that EPE ranked number 1 in SAIFI (outage frequency) in 2021 and 2022 and number 3 in 2023. EPE ranked number 4 in SAIDI (outage duration) in 2021, number 1 in 2022, and number 2 in 2023. The following tables provide EPE's performance for the years 2021 through 2023 per PUCT annual Service Quality Reports in PUCT Project Nos. 52946, 54467, and 56005, respectively.

Table LC-1
SAIFI

Year	EPE Ranking, out of 9 Utilities	EPE SAIFI	Average SAIFI
2023	3	0.789	1.16
2022	1	0.552	1.25
2021	1	0.663	1.22

Table LC-2
SAIDI

Year	EPE Ranking, out of 9 Utilities	EPE SAIDI	Average SAIDI
2023	2	81.16	137.9
2022	1	47.16	151.9
2021	4	118.75	148

Q20. Q. WERE THERE ANY SEVERE WEATHER EVENTS THAT OCCURRED SINCE THE LAST RATE CASE FILING?

A. Yes, there was a 71-mph windstorm that impacted EPE's service territory on February 26, 2023. The wind event was responsible for 13 feeder breaker level outages, 87 total outages, and impacted 32,430 customers. The windstorm was the 7th highest wind gust recorded at El Paso International Airport since 1878 and the event alone contributed 23 minutes to the

1 overall 2023 TX SAIDI of 81.16 minutes, which was 28% of the total SAIDI. The
2 windstorm impacted other utilities in the Southwest, such as PNM.

3
4 Q21. GIVEN SEVERE WEATHER AND SERVICE DISRUPTIONS THAT CAN OCCUR,
5 WHAT STEPS HAS EPE TAKEN AND WHAT STEPS DOES IT PLAN TO TAKE TO
6 PREPARE ITS DISTRIBUTION SYSTEM FOR EXTREME WEATHER, BOTH HOT
7 AND COLD?

8 A. **Winter Weather Hardening**

9 Regarding EPE's distribution systems, extreme cold temperatures without precipitation do
10 not usually result in outages beyond normal daily or seasonal averages. However, cold
11 weather events with precipitation (snow or freezing rain) can result in serious, multiple
12 concurrent, outage events that strain the Company's resources and impact
13 response/recovery time.

14 At the distribution level, most outages resulting from cold with precipitation events
15 are caused by tree limbs and trees on the line. More specifically, it is the snow or ice
16 weighted tree limbs or trees that break or sag into distribution lines that cause the outages.

17 EPE maintains an aggressive tree trimming, line clearing program that proactively
18 trims or removes (where possible) trees and tree limbs in proximity to the distribution lines.
19 The general rule for tree trimming is to cut the branches back to a three-year growth rate
20 (i.e., it will take three years of growth for the branches to grow and interfere with our lines
21 again.) Obviously, some distribution circuits are more susceptible to tree related outages
22 than others just because of the geographical area they serve. EPE recently implemented an
23 Intelligent Vegetation Management System ("IVMS"). The IVMS uses satellite imagery
24 to determine the proximity of vegetation to an overhead circuit which will create an outage
25 or damage to EPE facilities. Using artificial intelligence, IVMS considers system
26 protection, customer count and outage history to develop a criticality factor for all the
27 determined encroachments. EPE will use this imagery and criticality factor to prioritize
28 tree trimming efforts in the most efficient and impactful manner to improve reliability and
29 customer service.

Summer Weather Hardening

Regarding EPE's distribution systems, outages related to extreme hot weather or heat events are a problem with or without precipitation. Hot and extremely hot weather days create cooling demand at all customer levels and therefore increase the volt-ampere demand (loading) on all electrical equipment. Hot and extremely hot weather events (multiple, concurrent days of hot weather) create additional, "duty cycle" strain, on load-serving equipment. Simply stated, the energized equipment experiences a higher-than-normal loading for a longer than normal period of time and the equipment never has a chance to cool off.

At the distribution system level, there are no national standards or planning requirements that compel a utility to continually monitor the load capacity or thermal rating of distribution lines and equipment to prevent failure and outages. The electrical infrastructure of the distribution system also has capacity and thermal ratings that define the safe operating limits of each piece of equipment. The quality of electric service provided to customers is monitored by state regulators, which includes the review of SAIDI and SAIFI reliability reports that are published annually by utilities.

EPE relies on past performance outage data, in combination with internally developed algorithms using customer meter data, customer connectivity information from our Outage Management System, substation feeder metering data, and regional customer load growth information to identify, or predict, distribution line and/or transformer overloading situations. This annual line and transformer loading assessment effort begins anew every fall after the summer peak season as soon as the summer data is validated and available. The annual assessment culminates in a list of summer prep field activity (new distribution lines, distribution line rebuilding, load shifting between feeders, feeder phase balancing, transformer additions, or transformer size upgrades, protective device coordination, etc.) that is executed through the pre-summer loading months.

Q22. ASIDE FROM EXTREME HOT OR COLD WEATHER EVENTS, DOES EPE PLAN AND DESIGN FOR ANY OTHER WEATHER CONDITIONS OR EVENTS THAT CAN NEGATIVELY IMPACT EPE'S DISTRIBUTION?

1 A. Yes, in EPE's service territory, the top two "weather type" descriptions associated with
2 distribution outages are lightning and wind. In the winter and spring months, it is common
3 to have windstorms with sustained winds of 50 to 60 mph and gusts of 70 mph and above
4 (hurricane-force winds). Again, in the winter and spring months, these windstorms will
5 affect all, or substantial portions of, EPE's customer service territory. The annual
6 thunderstorm season in EPE's service territory ranges from mid-May through the end of
7 September. Whereas thunderstorm events tend to affect smaller areas of EPE's service
8 territory (more localized), the lightning activity is almost always accompanied by a high
9 level of wind and wind-shear force on the overhead distribution infrastructure. Lightning
10 strikes, directly on, or sufficiently close to, the Company's distribution lines, frequently
11 result in outages. For wind impacts, it is not just the wind force loading on poles and other
12 overhead equipment that topples structures and causes outages, it is also the high wind
13 effect on trees and other debris that is blown into the Company's lines and structures that
14 causes outages.

15 Experience guides future action and recognizing that lightning and wind-related
16 events are the two leading contributors to distribution level outages, EPE has implemented
17 a proactive tree-trimming program, a wood pole testing and treatment program, lightning
18 protection construction standards, a feeder patrol program, and an annual grid maintenance
19 program. As described earlier in this testimony, EPE's tree-trimming program clears trees
20 and branches in proximity to its distribution lines and energized equipment to a three-year
21 growth perimeter. EPE also utilizes the services of contractors to conduct an above and
22 sub-surface inspections and testing of its distribution wood poles. EPE's distribution design
23 standards include a static line configuration for areas of historically high-lightning activity
24 and lightning-protection equipment (lightning arresters) on all transformers, line switches,
25 and end points. The feeder patrol program consists of a visual inspection by field personnel
26 of the main truck of each feeder on a three-year cycle. The data recorded during the patrols
27 is placed into a database and prioritized based on risk for causing an outage, with the
28 highest risk scheduled first for repair. And finally, EPE conducts an annual distribution
29 system maintenance blitz in the month of February. The objective of the annual
30 maintenance blitz is to proactively repair, replace, and restore infrastructure that, for

whatever reason (age, loading, pole rotting, splitting, loose connections, etc.), may fail and cause or contribute to an outage if left unattended.

Q23. HAS EPE MADE ANY MODIFICATIONS TO THE OPERATIONAL DEMARCATION BETWEEN THE DISTRIBUTION AND SUBSTATION/TRANSMISSION SYSTEMS TO IMPROVE RELIABILITY?

A. Yes, in March 2023, EPE redefined its operational demarcation by establishing a Distribution Operations Control Center ("DOCC"). Consistent with industry best practices, the DOCC is responsible for all distribution system switching from the feeder breaker to the customer meter. All training for new job duties was conducted in-house, no additional costs were incurred.

Q24. HAS EPE IMPLEMENTED NEW TECHNOLOGIES AT THE DOCC TO IMPROVE RELIABILITY OF THE DISTRIBUTION SYSTEM?

A. Yes, Project SS315 called for the upgrade of the Outage Management System ("OMS") in 2023, making improvements in crew management, documentation of the system, mapping, situational awareness, and outage management for the distribution system. EPE continues to improve its use of the OMS to improve operations, active storm, and post-storm damage assessment. The cost of Project SS315 was \$410,163.76 and is identified in EPE witness Cynthia Prieto's Exhibit CSP-2.

VI. Identifying the Need for Distribution Capital Investments

Q25. HOW DOES EPE IDENTIFY THE NEED FOR NEW DISTRIBUTION PROJECTS?

A. Distribution system capital projects are driven by customer service requests, customer load growth, service reliability improvements, and compliance with the American National Standards Institute ("ANSI") electric service standards. The ANSI standards define service voltage standards and the acceptable range of variation above and below the standard. (i.e., the electric service voltage single-phase standard is 120/240 Volts with a maximum variation from that standard of plus or minus five percent.). Additionally, some capital projects are identified and defined in the regular course of EPE's annual O&M inspections; in response to an unexpected distribution outage event caused by weather, vegetation,

1 vehicles, construction equipment, etc.; or a combination of both. Distribution system
2 expansion projects are listed and defined in an internal document referred to as the 10-year
3 Distribution System Expansion Plan.
4

5 Q26. PLEASE DESCRIBE THE INTERNAL APPROVAL PROCESS FOR NEW
6 DISTRIBUTION PROJECTS.

7 A. Distribution projects that are identified and defined in the 10-year Distribution System
8 Expansion Plan follow a scoping process to define the requirements and priority of the
9 projects. In the scoping process, each project is reviewed with the applicable EPE
10 departments to predefine and identify any obstacles or conflicts associated with the
11 proposed route or site, any land or rights-of-way acquisition or permitting requirements,
12 and any alternatives, and finally the project's priority to schedule the required resources for
13 the project. On an annual basis, the distribution capital projects are presented to the
14 Distribution Capital Planning Committee for approval and status updates.
15

16 VII. Processes and Procedures for Capital Investments

17 Q27. DOES THE COMPANY HAVE PROCEDURES AND PROCESSES IN PLACE TO
18 MANAGE THE REASONABLENESS OF THE COSTS ASSOCIATED WITH
19 DISTRIBUTION PROJECTS?

20 A. Yes. Non-stock materials and construction services for distribution projects exceeding
21 \$150,000 are solicited through a formal competitive bidding process. Excluding
22 professional services, competitive bids are required for all non-stock purchases when the
23 total value of the goods or services equals or exceeds \$25,000. Informal telephone and
24 email bids conducted by the requesting department are acceptable for purchases from
25 \$25,000 up to \$149,999. Requests for competitive bid negotiations are forwarded to EPE's
26 Supply Chain Management ("SCM") group for further processing and review.

27 A purchase requisition with all necessary information and approvals will then be
28 submitted to EPE's SCM group for processing. All requests for bids, with appropriate EPE
29 bid number and bid due date, will be sent to a minimum of three qualified and approved
30 suppliers, provided that three qualified and approved suppliers for that service or material
31 exist.

1
2 Q28. WHAT INFORMATION IS INCLUDED IN THE REQUEST FOR BIDS THAT EPE
3 PROVIDES FOR CONTRACTOR SERVICES?

4 A. Bid specifications will include a statement of work and clearly state the supplier's
5 obligations and responsibilities for all areas of the work or services to be performed. This
6 includes, but is not limited to safety, sanitation, and all other aspects of the work to be
7 performed or provided. Bid specifications will include a time frame for the completion of
8 the necessary work or service. Specifications may also include a detailed performance
9 guarantee clause, if applicable. Pre-bid meetings and tours of the project site will be
10 conducted when appropriate.
11

12 Q29. WHAT PROCESS DOES EPE FOLLOW WHEN IT RECEIVES THE BIDS FROM
13 SUPPLIERS?

14 A. Upon receipt of the bids, the SCM group will issue a summary report to the user who
15 requested the bid. It will include price quotes by supplier, copies of the bids, the
16 recommended supplier, and the reason for the selection. All information received
17 pertaining to bid packages will remain strictly confidential. Supplier pricing and services
18 will never be discussed with other competing suppliers. SCM may notify all participants
19 as to which supplier the bid is awarded. Work performed by contractors or consultants will
20 not begin until a purchase order ("PO") has been issued. In all cases, contractors, and
21 consultants, including subcontractors, must provide proof of required insurance before a
22 PO will be issued.

23 The Company reserves the right to reject any or all bids. Additionally, the Company
24 reserves the right to deviate from written policies and related procedures when, upon a
25 showing of good cause and with the approval of senior management, it is in the best interest
26 of the Company and its customers.
27

28 VIII. Distribution Capital Projects

29 Q30. WHAT AMOUNT OF TEXAS DISTRIBUTION PLANT ADDITIONS HAS EPE
30 PLACED IN SERVICE SINCE THE COMPANY'S 2021 RATE CASE AND IS
31 REQUESTING TO BE INCLUDED IN THIS CASE?

1 A. From January 1, 2021, through the Test Year end of September 30, 2024, EPE has placed
2 \$245,771,296 of additional distribution plant in service in Texas. As described in the
3 testimony of EPE witness Adrian Hernandez, Texas distribution plant costs are directly
4 assigned to Texas. A list of these Texas distribution capital projects is provided by EPE
5 witness Cynthia Prieto in her Capital Additions Exhibit CSP-2. These projects are
6 discussed further in my testimony. These capital project additions and costs do not include
7 distribution substation projects, which are presented in the direct testimony of Company
8 witness Alexander Aboytes.
9

10 Q31. WHAT ARE THE MAIN FACTORS THAT DETERMINE THE NEED FOR CAPITAL
11 INVESTMENT IN THE DISTRIBUTION SYSTEM?

12 A. Load growth, reliability, and maintenance are the main factors that drive the need for
13 capital investments in the distribution system. New facilities are required to reliably serve
14 EPE's expanding customer load growth. Existing facilities need to be proactively replaced
15 as they reach the end of their useful life to maintain acceptable reliability and to be
16 reactively replaced if they fail due to damage (e.g., vehicle accidents) or premature failures
17 due to weather and aging.
18

19 Q32. HAS EPE PREVIOUSLY PRESENTED TO THE COMMISSION ANY OF THE
20 DISTRIBUTION PROJECTS THAT IT SEEKS TO INCLUDE IN RATES IN THIS
21 RATE CASE?

22 A. Yes, it has. EPE filed an application for a distribution cost recovery factor ("DCRF") on
23 March 28, 2024, which was assigned Docket No. 56425. This case was resolved on June
24 13, 2024. The test year for EPE's last base rate case, Docket No. 52195, was January
25 through December 2020. The period of investment presented in Docket 56425 was January
26 2021, through December 2023. EPE is now requesting that these distribution projects be
27 moved to and included in base rates in this case. In addition, distribution investments from
28 January 2024 through September 2024 are being presented for the first time in this rate
29 case.
30
31

Q33. ARE “BLANKET” PROJECTS UTILIZED IN DISTRIBUTION?

A. Yes, they are utilized in distribution and represent \$212,099,170 total distribution infrastructure investment in Texas.

Q34. CAN YOU DESCRIBE HOW BLANKET PROJECTS ARE USED IN DISTRIBUTION?

A. The Company uses Distribution Blanket Projects to account for capital costs that fall within pre-defined, recurring categories. Although the individual activities are recurring and comparatively small in nature, these projects span activities that apply to the entire distribution system. The specific work orders under the project delineate the task by location, customer, or other characteristic that facilitates both scheduling and accounting processes at EPE. These projects are necessary to (1) improve reliability of the distribution system, (2) improve operation of the distribution system, and (3) meet EPE's continuous customer load growth. The costs of EPE's Distribution Blanket Projects from January 2021 through September 2024 are presented in the table below:

Table LAC-3

Project Number	Project Description	Company Total
DT069	TEXAS COMMERCIAL CONSTRUCTION BLANKET	\$ 64,590,197
DT061	TEXAS RESIDENTIAL CONSTRUCTION BLANKET	\$ 34,722,689
DT062	TEXAS DISTRIBUTION BETTERMENT BLANKET	\$ 34,033,172
MT004	TEXAS METERS BLANKET	\$ 20,429,968
DT065	TEXAS DISTRIBUTION DAMAGE BLANKET	\$ 18,903,964
DT189	TEXAS AREA 4KV CONVERSIONS BLANKET	\$ 11,110,382
DT068	TEXAS OVERHEAD SERVICE NEW/REPLACE BLANKET	\$ 8,580,001
DT121	TEXAS CABLE REPLACEMENT PROGRAM BLANKET	\$ 5,034,376
DT372	POLE REPLACEMENT & IMPROVEMENTS TEXAS	\$4,123,076
DT064	TEXAS LIGHTING BLANKET	\$ 3,802,958
DT462	TEXAS 14KV FEEDER EXTENSIONS OR RECONDUCTOR UPGRADE BLANKET	\$ 3,682,358
DT427	TEXAS DISTRIBUTION LINE TRANSFORMER UPGRADES BLANKET	\$ 2,135,031
DT466	TEXAS 24KV FEEDER EXTENSIONS OR RECONDUCTOR UPGRADE BLANKET	\$ 686,483
DT465	TEXAS SCADA FIELD EQUIPMENT BLANKET	\$264,516
	TEXAS DISTRIBUTION BLANKETS TOTAL	\$ 212,099,170

1 The capital investment associated with the blanket projects are, in large part, customer
2 driven investments and net of any Contribution in Aid of Construction ("CIAC") made by
3 the customer. These represent reasonable, necessary, and prudent capital investments that
4 are used and useful to serve Texas customers.
5

6 Q35. CAN YOU DESCRIBE THE REMAINDER OF THE DISTRIBUTION PROJECTS?

7 A. The remainder of capital projects (i.e., the non-blanket projects) are individual larger
8 projects focused on system expansion and betterment to provide safe and reliable service.
9 I discuss two major non-blanket projects in greater detail below, both of which exceeded
10 \$5 million in cost. Non-blanket projects under \$5 million total \$22,988,053 and are
11 composed of distribution projects such as distribution feeder additions and upgrades, and
12 other infrastructure betterments to meet load requirements and maintain reliability. While
13 the distribution capital projects that EPE requests be placed into rate base are used and
14 useful and have been constructed in a prudent manner at a reasonable cost, I describe the
15 two projects over \$5 million for ease in reference and to highlight major distribution capital
16 projects since the Company's last rate case. I will note that, in his direct testimony,
17 Company witness Aboytes discusses the distribution substations added since the
18 Company's last rate case, and he describes in detail the several major distribution
19 substation projects that exceeded \$5 million in cost.
20

21 Q36. WHAT ARE THE NON-BLANKET DISTRIBUTION PROJECTS EXCEEDING FIVE
22 MILLION DOLLARS IN COST AS LISTED IN EPE WITNESS PRIETO'S EXHIBIT
23 CSP-2?

24 A. The non-blanket distribution projects exceeding \$5 million in cost are as follows:

25 **TABLE LAC-4**

Project Number	Project Description	Company Total
DT449	Diamondhead Feeder Additions	\$5,460,785
DT234	Re-Cable Downtown Network Feeders	\$5,223,288

26
27
28
29
30 Q37. CAN YOU PLEASE DESCRIBE THE DISTRIBUTION PROJECTS LISTED IN TABLE
31 LAC-4?

1 A. Yes, I describe the projects below in the same order as Table LAC-4.

2
3 **A. PROJECT NUMBER DT449**

4 Q38. WHAT IS PROJECT DT449 DIAMONDHEAD SUBSTATION FEEDER
5 ADDITIONS?

6 A. DT449 is a \$5.5 million project to add three distribution feeders from Diamondhead
7 Substation in East El Paso. These new feeders were constructed to relieve the existing and
8 increasing load on the other substations in the area (Lane, Sol, Vista, and Wrangler
9 substations).

10
11 Q39. WHY WAS THIS PROJECT NEEDED?

12 A. The Diamondhead feeders support the existing and rapidly expanding customer growth of
13 East El Paso. These feeders provide offload support for adjacent substations while
14 supporting residential and commercial loads in the area.

15
16 Q40. WAS PROJECT DT449 DIAMONDHEAD SUB FEEDER ADDITIONS A
17 REASONABLE, NECESSARY, AND PRUDENT INVESTMENT?

18 A. Yes, this project is reasonable and necessary and was constructed prudently. As described
19 above, these feeders support area load growth and helped to relieve heavily loaded circuits
20 from other substations.

21
22 **B. PROJECT NUMBER DT234**

23 Q41. WHAT IS PROJECT DT234 RE-CABLE DOWNTOWN NETWORK FEEDERS?

24 A. DT234 is a \$5.2 million project to upgrade and replace aged cable in downtown El Paso.

25
26 Q42. WHY WAS THIS PROJECT NEEDED?

27 A. Cable replacement efforts are needed to increase circuit capacities supporting area load
28 growth. Proactively replacing aged cable improves reliability and reduces outage frequency
29 and duration resulting from cable failures.

1 Q43. WAS PROJECT DT234 RE-CABLE DOWNTOWN NETWORK FEEDERS A
2 REASONABLE, NECESSARY, AND PRUDENT INVESTMENT?

3 A. Yes, this project is reasonable and necessary and was constructed prudently. As described
4 above, replacing cable increases circuit capacity and improves reliability.
5

6 **C. Other Distribution Projects**

7 Q44. WHAT OTHER DISTRIBUTION PROJECT COSTS ARE INCLUDED IN THIS CASE?

8 A. The remaining distribution projects and their associated costs are presented in
9 Exhibit LAC-2 with project descriptions for all projects with a cost greater than \$1 million
10 but less than \$5 million.
11

12 **IX. Distribution Operations and Maintenance**

13 Q45. WHAT IS THE TEST YEAR O&M EXPENSE FOR DISTRIBUTION?

14 A. The total Distribution O&M expense for the Test Year is \$30,938,316 which includes
15 adjustments presented by EPE witness Steven Sierra and listed in Schedule G-15.
16

17 Q46. WHAT ACTIVITIES ARE INCLUDED IN DISTRIBUTION O&M EXPENSE?

18 A. Total Distribution O&M expense consists of the cost of (1) employees operating the
19 distribution system and any associated materials and equipment and (2) maintaining the
20 system, such as vegetation management, repair work, replacement, and general upkeep.
21

22 Q47. DOES EPE HAVE COST CONTROL MEASURES IN PLACE TO MANAGE
23 DISTRIBUTION O&M COSTS?

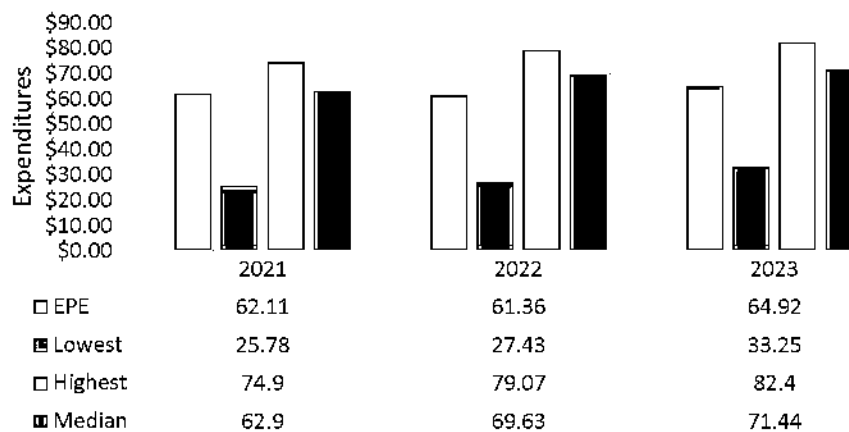
24 A. Yes. There are two major cost control mechanisms in place to review and manage these
25 costs. Materials of value over \$150,000 for distribution O&M projects are solicited through
26 a formal competitive bidding process. Distribution O&M projects are subject to the same
27 processes for obtaining competitive bids as I described earlier for distribution capital
28 projects. The expense also goes through a budgeting process that requires management
29 approval. This process helps to ensure that the Test Year Distribution O&M costs are
30 reasonable.
31

Q48. HOW DOES EPE'S DISTRIBUTION O&M EXPENSE COMPARE TO OTHER REGIONAL UTILITIES IN RECENT YEARS?

A. The chart below illustrates EPE's comparative O&M cost per customer served with those of the other regional investor-owned utilities, Southwestern Public Service ("SPS"), Public Service Company of New Mexico ("PNM"), and Tucson Electric Power ("TEP"), Arizona Public Service ("APS"), and Nevada Energy ("NV").

Figure LAC-4

Distribution O&M Expenditures per Customer
Comparison to 5 Regional Utilities - FERC Form 1



Q49. DOES A FAVORABLE COMPARISON OF EPE'S DISTRIBUTION O&M COSTS TO OTHER REGIONAL UTILITIES PROVE THAT EPE'S COSTS WERE REASONABLE AND NECESSARY?

A. Not by itself, each company faces its own unique circumstances. A favorable comparison would simply show that EPE's efforts achieved results for its customers that are within the range of the other utilities' distribution costs. And, as I have discussed above, the facts show that EPE has cost control processes in place to allow it to effectively manage its distribution operations and to provide reliable electric service to its retail customers. Accordingly, the distribution O&M costs EPE incurred during the Test Year should be found reasonable and necessary.

X. Issues Regarding Large Load Requests

Q50. WHAT ISSUES DOES THIS SECTION OF YOUR TESTIMONY ADDRESS?

A. Like many utilities around the country, EPE has, in the past year, experienced a significant increase in the number of service requests from or related to large loads (i.e., loads approaching or exceeding one megawatt, and in some instances, exceeding 10 megawatts). Some existing EPE customers have also requested or needed additional services for their own growing load. While EPE resource planning works to ensure that the Company has the generation capacity to serve these new customer requests along with the Company's existing and projected customer load, the Company must also ensure that it has the distribution and transmission capacity to serve these new customer requests along with the Company's existing and projected customer load. This section of my testimony identifies four scenarios that the Company has been experiencing in this context and describes the Company's proposed solution to address each scenario.

Q51. WHAT IS THE FIRST SCENARIO AND EPE'S PROPOSED SOLUTION?

A. One or more EPE customers with significant load have requested an additional Primary Voltage line and related distribution facilities as a back-up to their regular main Primary Voltage line and related distributed facilities. To appropriately provide such service, EPE must ensure that the Company has distribution capacity reserved to serve both the customer's initial and alternate feeder. To avoid having other customers subsidize the costs of such reserved distribution capacity, the requesting customer should be charged for the capacity reservation.

Under the existing line extension policy Section E.1, any customer requesting an alternate Primary Voltage line shall either make a Customer Contribution in the amount of the Estimated Cost of the Primary Voltage Extension (including substation facilities) or enter into a written agreement to pay a monthly facilities charge equal to the Company's fixed costs on the alternate Extension. EPE now proposes to add to Section E.1 that, if the alternate Extension requires a reservation of distribution capacity, the customer will be charged a Reserved Distribution Capacity Charge under the customer's applicable rate schedule, as further detailed by Company witness Manuel Carrasco. My Exhibit LAC-3

1 includes the redline changes to Section E.1 of the Company's line extension policy to
2 reflect the proposal.

3
4 Q52. WHAT IS THE SECOND SCENARIO AND EPE'S PROPOSED SOLUTION?

5 A. EPE has received requests to install facilities to provide service to "speculative"
6 commercial/industrial developments¹ that plan to host a range of multiple large loads;
7 however, developers look to maximize the marketing opportunities with higher electrical
8 demand. This includes prospective manufacturing and small data center loads. For
9 example, developers may request multiple 2,500 kVA transformers for one complex. For
10 some context, one complex with four 2,500kVA transformers would consume the capacity
11 of one distribution feeder (a 13.8 kV feeder has a 10 kVA capacity) or one-third of a
12 substation transformer. Some of these loads may not come online for multiple months or
13 may never materialize if a different type of tenant with lower consumption were to be
14 attained. So the expectation of recovering costs to install or reserve capacity to serve these
15 future loads through their payments for incurred electric services is speculative. This
16 creates a risk to the Company and its customers who may otherwise be responsible for
17 these costs due to the premature acceleration of the construction of additional substation
18 and transmission infrastructure. While some protection exists through existing credit
19 requirements in the line extension policy (i.e., provisions that a customer may be required
20 to secure a Revenue Guarantee or otherwise have available funds to cover the Adjusted
21 Revenue Guarantee Obligation for line extensions), not all the costs of reserving EPE
22 distribution capacity for these customers may be covered by the guarantee, while other
23 customers requesting service may be delayed due to the capacity reserved for these
24 speculative loads.

25 To respond to these types of requests and improve protection for itself and its
26 customers, EPE plans to impose controls for transformer size commitments upfront and
27 proposes to add a new Distribution Capacity Reservation Charge to the Company's line
28 extension policy and applicable line extension agreements for any customers that request
29 to reserve the capacity beyond a twelve-month period. Upon any customer service request
30 that requires a transformer greater than 750 kVA, EPE will request verification from the

¹ Speculative as used in the real estate industry as buildings being built with no tenant yet to be identified.

1 customer including, if applicable, from the customer's certified electrician of tenant status
2 and type, and electrical load characteristics of planned equipment to assess planned
3 Connected Load. Any requests from customers verifying planned Connected Load will be
4 addressed under Section B of the current line extension policy including any applicable
5 Customer Contribution requirements. If the customer does not verify planned Connected
6 Load, EPE will provide at minimum a 750 kVA transformer, or a transformer size to the
7 verified load, and reserve distribution capacity for the planned Connected Load for no more
8 than one year after installation of the transformer. If the customer later verifies additional
9 planned Connected Load, EPE will provide a larger kVA transformer as applicable but not
10 exceeding the reserve distribution capacity amount, and the customer will be managed
11 going forward under Section B of the line extension policy. However, if planned Connected
12 Load requiring a larger transformer is not verified during the first twelve months after
13 installation of the transformer, EPE will bill the Distribution Capacity Reservation Charge
14 to any customer that request to hold the reservation beyond the twelve-month period. The
15 charge will be a one-time, non-refundable charge to reserve the requested capacity for an
16 additional twelve-month period after which the reservation will terminate. It will be
17 calculated as an annualized minimum demand charge based on the difference of the
18 requested load and the install transformer capacity at the end of the initial twelve-month
19 period. My Exhibit LAC-3 includes the redlined changes to Section E.4 of the Company's
20 line extension policy to reflect this proposal. Company witness Carrasco's direct testimony
21 provides an example of how the proposed charge will be calculated.
22

23 Q53. WHAT IS THE THIRD SCENARIO AND EPE'S PROPOSED SOLUTION?

24 A. EPE has received large load requests that, despite being at distribution voltage, due to their
25 magnitude or unusual character, would trigger the need to construct transmission,
26 substation and/or relay facilities (i.e., facilities energized at or above 69kV).

27 To respond to these types of requests and improve protection for the Company and
28 its customers, I first note that Section E.2 of EPE's existing line extension policy already
29 includes the following provisions for primary and transmission voltage interconnections:

30 Electric service from the Company's Primary and Transmission Voltage
31 system is available at the Company's option to Customers whose electrical
32 load is of such magnitude or unusual character that it should not be served

1 otherwise. The Customer shall be responsible for providing all
2 transformation equipment, which must be in accordance with Company
3 specifications. The total cost of the Transmission Line Extension (including
4 metering) shall be subject to a monthly facilities charge. The Company, at
5 its option, may require a Customer Contribution for all or a portion of the
6 construction costs of the Extension.
7

8 EPE proposes to clarify the applicability of this section and include a new charge to protect
9 the Company and its customers from potential adverse impacts.

10 Regarding applicability, EPE proposes that any customer seeking interconnection
11 at distribution voltage for a 30,000 kW or higher load will be responsible for the costs of
12 any unplanned substation upgrades, as well as transmission line upgrades, if applicable,
13 that are required for the requested service (the transmission upgrades), as dedicated
14 facilities. The 30,000-kW value is selected because it equates to the capacity of one
15 substation power transformer for that customer. If the customer chooses that EPE install,
16 operate and maintain the distribution facilities, the customer will be responsible for the
17 costs of the transmission upgrades via an Infrastructure Capacity Charge and cost recovery
18 guarantee that will be estimated at the time of the service request. The fee will be based on
19 the investment required to build out infrastructure to satisfy the needs of the development.
20 The Company and the customer will enter into a written agreement addressing the cost
21 recovery guarantee as well as the Infrastructure Capacity Charge and the period over which
22 it will be paid. If the customer chooses to not move forward with their project, EPE will
23 allow a refund of any unused funds towards construction efforts that had begun in good
24 faith.

25 Regarding the new charge, EPE proposes to add a new Infrastructure Capacity
26 Charge to the line extension policy and applicable line extension agreements. My
27 Exhibit LAC-3 identifies the redlined changes to Section E.5 of the Company's line
28 extension policy to reflect this proposal.
29

30 Q54. WHAT IS THE FOURTH SCENARIO AND EPE'S PROPOSED SOLUTION?

31 A. EPE has experienced circumstances in which existing primary metering voltage customers
32 as well as customers served from a distribution step-down transformer have increased their
33 load significantly without the required notice to EPE. When a customer that is served from

1 a distribution step-down transformer increases load to the point that the transformer is
2 overloaded, all customers served from the transformer may experience low voltage and the
3 transformer may fail, resulting in an extended outage. Similarly, primary customers that
4 exceed the EPE approved load might impact other customers that are served from the
5 primary distribution line if the amount of load added results in an overloaded condition for
6 the distribution line equipment.

7 Rule 20 in Section 2 (Rules and Regulations) of EPE's Tariff already addresses
8 this issue to some extent. That rule is entitled "Increasing or Decreasing Connected Load"
9 and states:

10 The Customer will not increase the Connected Load except upon notice to
11 and consent by the Company, and, in the event of any such increase in the
12 Connected Load, the Customer must pay for such increase or altered service
13 pursuant to the appropriate tariff schedule(s). If requested by the Company,
14 the Customer will execute a new Agreement at the Company's regular
15 published rate covering the total Connected Load as so increased.

16
17 The Company's service conductors, transformers, meters and other devices
18 used to supply electric energy to the Customer each have a definite capacity,
19 and no addition to the Customer's Installed Connected Load thereto will be
20 permitted until the Customer has secured the Company's consent. A
21 violation of this rule makes the Customer liable for any damage resulting
22 there from. In case the Customer's Connected Load is decreased, it is the
23 responsibility of the Customer to notify the Company, in writing, of such
24 decrease before obtaining any benefit in rates from such decrease. (See
25 pages 8-9 of Section 2, Sheet 2).
26

27 Under Section 2 of EPE's Tariff, "Connected Load" means the combined nominal
28 rated capacity in kilowatts of all motors or other electric energy consuming devices
29 installed on the Customer's premises that may be operated with electric energy supplied
30 by the Company. (See page 2 of Section 2, Sheet 2).

31 To improve the practical application of Rule 20 considering the increasing
32 magnitude and impact of violations, EPE proposes to clarify the language of Rule 20 and
33 identify disconnection of service as a possible penalty for failure to provide required notice
34 to the Company. Please see Exhibit LAC-4 to my testimony for a copy of the redlined edits
35 to Rule 20.

1
2 **XI. Additional Changes to EPE Line Extension Policy**

3 Q55. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

4 A. This section of my testimony supports EPE's proposed revisions to the Company's Line
5 Extension Policy, which is provided as Exhibit LAC-3. Aside from the proposed changes
6 included in my testimony above regarding large load requests, I describe the rationale for
7 each of the changes to the Line Extension Policy below.
8

9 Q56. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION
10 ADDRESS FOR NOTICE ADDED?

11 A. This definition was added to be used as the address for customers to notify the Company
12 of additional line extensions being built off the customer's original line extension to receive
13 Revenue Credit. See Sheet No. 5 Under Policies, Paragraph B (Line Extensions) Option 1
14 (Line Extensions Built by the Company) 2 (Revenue Deficiencies) b - 2 (Revenue Guaranty
15 Account) or Sheet No. 5 Under Policies, Paragraph B (Line Extensions) Option 2 (Line
16 Extensions built by the Customer) 11 (Refunds for Customer Built Line Extensions) b
17 (Amount Subject to Refund) - 3.
18

19 Q57. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION
20 ADEQUATE SECURITY REMOVED?

21 A. The term adequate security was removed because it has the same definition as Revenue
22 Guarantee, which is defined in the Line Extension Policy.
23

24 Q58. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION
25 COMMISSION ADDED?

26 A. The definition was added to clarify the commission referenced in the policy is the Public
27 Utility Commission of Texas.
28

29 Q59. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION
30 CONNECTED LOAD ADDED?

1 A. The definition was added to provide clarity on what types of devices constitute connected
2 load.

3
4 Q60. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION FOR
5 COST OF CAPITAL CHARGES MODIFIED?

6 A. The definition was modified to make it easier to understand.

7
8 Q61. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION FOR
9 EXTENSION COST MODIFIED?

10 A. The definition was modified to clarify that the cost of meters and metering equipment is
11 not included in the cost of an underground line extension.

12
13 Q62. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION OF
14 REVENUE GUARANTEE ACCOUNT MODIFIED?

15 A. The definition was modified to specify the types of securities that are acceptable to the
16 Company.

17
18 Q63. IN THE DEFINITION SECTION ON SHEET 4, WHY WAS THE DEFINITION OF A
19 TEMPORARY CUSTOMER ADDED?

20 A. The definition of temporary customer was added to define under what conditions a customer
21 is deemed temporary.

22
23 Q64. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH A.
24 (GENERAL) 2., WHY WAS THE WORDING "IN A COST-EFFECTIVE MANNER
25 WHILE ADHERING TO ALL APPLICABLE STATE AND LOCAL ORDINANCES"
26 ADDED?

27 A. The wording "in a cost-effective manner while adhering to all applicable state and local
28 ordinances" was added to ensure that while extending safe and reliable electrical facilities,
29 the Company carefully considers all methods of construction and builds in the most
30 economic manner possible while adhering to all applicable ordinances.

1 Q65. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH A.
2 (GENERAL) 5. (RIGHTS-OF-WAY), WHY WERE CHANGES MADE TO THE
3 SECTION?

4 A. Language was added and deleted to provide clarity and to use terms that are defined in the
5 Line Extension Policy.
6

7 Q66. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH B. (LINE
8 EXTENSIONS) OPTION 1: LINE EXTENSIONS BUILT BY THE COMPANY 2.
9 (REVENUE DEFICIENCIES) b. - 1 (CASH ADVANCE FOR CONSTRUCTION), WHY
10 WERE CHANGES MADE TO THE CASH ADVANCE FOR CONSTRUCTION
11 SECTION?

12 A. Language was added and removed to clearly define when the Line Extension Agreement
13 term begins and ends.
14

15 Q67. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH B. (LINE
16 EXTENSIONS) OPTION 1: LINE EXTENSIONS BUILT BY THE COMPANY 2.
17 (REVENUE DEFICIENCIES) b. - 2 (REVENUE GUARANTEE ACCOUNT), WHY
18 WERE CHANGES MADE TO THE REVENUE GUARANTEE ACCOUNT SECTION?

19 A. Language was added and removed to clearly define when the Line Extension Agreement
20 term begins and ends.
21

22 Q68. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH B. (LINE
23 EXTENSIONS) OPTION 1: LINE EXTENSION BUILT BY THE COMPANY 2.
24 (REVENUE DEFICIENCIES) b. - 2 (REVENUE GUARANTEE ACCOUNT), WHY
25 WAS THE WORDING "EPE MUST BE NOTIFIED BY THE ORIGINAL CUSTOMER
26 IN ADVANCE" ADDED?

27 A. The wording "EPE must be notified by the original customer in advance" was added to
28 guarantee that the customer responsible for the original line extension is given full credit
29 for actual revenues of additional customers served from the original line extension within
30 the allotted timeframe, after the cost of the additional line extension is covered. Due to the
31 sheer number of new line extensions built by the Company yearly, it is difficult to track

1 each line extension and correlate back to the original line extension. The Company is
2 requiring that the customer of the original line extension notify the Company when
3 additional line extensions are connected to receive the credit of additional revenue.
4

5 Q69. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH B. (LINE
6 EXTENSIONS) OPTION 2: LINE EXTENSIONS BUILT BY THE CUSTOMER 11.
7 (REFUNDS FOR CUSTOMER BUILT LINE EXTENSIONS) b. - 3, WHY WAS THE
8 WORDING "IF NOTIFIED BY THE CUSTOMER THAT BUILT THE ORIGINAL
9 LINE EXTENSION IN ADVANCE" ADDED?

10 A. Like the changes I describe above, the wording "If notified by the customer that built the
11 original line extension in advance" was added to guarantee that the customer that built the
12 line extension is given full credit for actual revenues of additional customers served from
13 the original line extension within the allotted timeframe, after the cost of the additional line
14 extension is covered. Due to the sheer number of new line extensions constructed yearly,
15 it is difficult to track each line extension and correlate back to the original line extension.
16 The Company is requiring that the customer of the original line extension notify the
17 Company when any additional line extensions are connected to receive the credit of
18 additional revenue.
19

20 Q70. IN THE POLICIES SECTION ON SHEET NO. 5 UNDER PARAGRAPH F. (PUBLIC
21 STREET LIGHTING, FREEWAY LIGHTING, AND TRAFFIC SIGNAL LIGHTS) 2.
22 (CITY OWNED STREET LIGHTING), WHY WAS NOTE 1 ADDED?

23 A. Note 1 was added to explain that not all rates in the rate schedule include maintenance.
24 There will be a charge to the City of El Paso for maintenance performed by the Company
25 for the streetlights that are on the non-maintenance rate.
26

27 Q71. PLEASE DESCRIBE ALL OTHER CHANGES REFLECTED IN YOUR EXHIBIT
28 LAC-3.

29 A. The remaining changes in the revised Line Extension Policy included in my
30 Exhibit LAC-3 are intended to reflect the changes detailed above, such as using the new

1 defined terms, or non-substantive clarifications to the existing language consistent with
2 existing Company practices.

3
4 Q72. ARE EPE'S PROPOSED CHANGES TO THE LINE EXTENSION POLICY
5 REASONABLE AND NECESSARY?

6 A. Yes, to achieve the purposes of the changes as described above, the changes proposed by
7 the Company to its Line Extension Policy are reasonable and necessary.

8
9 **XII. Conclusion**

10 Q73. PLEASE SUMMARIZE YOUR CONCLUSIONS.

11 A. EPE's capital investments and Test Year cost of service for distribution operations are
12 reasonable, necessary, and prudent to provide safe, reliable, and efficient service. EPE
13 requests the Commission find the additions of \$245,771,296 for distribution capital
14 investments in Texas to be reasonable, necessary, and prudent. EPE's total Test Year
15 distribution O&M expenses are \$30,938,315.63. The Test Year costs are reasonable and
16 necessary for safe and reliable service in Texas. All the distribution facilities I present in
17 my direct testimony are in service, used, and useful. Additionally, EPE's proposed changes
18 to its Line Extension Policy should be approved.

19
20 Q74. DOES THIS CONCLUDE YOUR TESTIMONY?

21 A. Yes, it does.

SCHEDULES SPONSORED BY LESLIE CHAGNON

Schedule	Description	Sponsorship
H-13.01	QUALITY OF SERVICE INFORMATION	Co-Sponsor
H-13.01a	VOLTAGE SURVEYS	Sponsor
H-13.01b	CIRCUIT BREAKER OPERATIONS	Co-Sponsor
H-13.01c	QUALITY OF SERVICE COMPLAINTS	Sponsor
H-13.01d	TREE TRIMMING PROGRAM	Co-Sponsor
H-13.01e	QUALITY OF SERVICE IMPROVEMENTS	Co-Sponsor
H-13.02	IE-24 REPORTS (FORM 417-R)	Sponsor
H-13.03	CONTINUITY OF SERVICE	Sponsor

DISTRIBUTION PROJECTS OVER \$1M AND LESS THAN \$5M

Project Number	Project Description	Project Benefit	Total
DT446	RIO BOSQUE DISTRIBUTION FEEDER ADDITIONS	This project was needed to serve load growth load growth in the project area and maintain reliability. It included the addition and upgrade of feeders out of Rio Bosque substation.	\$ 4,453,943
DT288	NEW NUWAY GETAWAYS AND FEEDERS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of new feeders and extensions of existing feeders in the area to support this rapidly growing area of the system between Montoya and Nuway substations.	\$ 2,282,174
DT350	NEW SPARKS-T2 FEEDER ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of three new feeders and extensions of existing feeders to intercept Horizon and Americas feeders to provide offload and back-feed support.	\$ 2,203,766
DT486	SAN ELIZARIO INTERCONNECTION DISTRIBUTION FEEDER	An additional feeder from Clint substation was needed to serve area load growth, improve reliability, and provide service to a large, distributed generation facility.	\$ 1,669,919
DT354	DOWNTOWN NETWORK SYSTEM UPGRADES	This project maintains or improves distribution system reliability, through the replacement of network protectors and related equipment throughout the Downtown Network system due to equipment age and health.	\$ 1,668,354
DT319	LANE T2 FEEDER ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the reconductor of four existing feeders at Lane substation to increase their capacity due to load growth in the area.	\$ 1,417,448
DT435	HORIZON T2 FEEDER LINE ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of three new feeders and extensions of existing feeders to intercept Horizon and Sparks feeders to provide offload and back-feed support.	\$ 1,366,056
DT317	SANTA FE FEEDER IMPROVEMENTS	This project includes the replacement of the existing cable from the new Santa Fe switchgear for the existing underground feeders due to age and the expected load growth in the area.	\$ 1,212,116
DT424	PATRIOT SUBSTATION T2 FEEDER ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of three new feeders and extensions of existing feeders to intercept Chaparral and Milagro feeders to provide offload and back-feed support.	\$ 1,189,823
DT474	EASTLAKE FEEDER ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of new feeders and extensions of existing feeders to provide offload and back-feed support to load growth near Horizon, Sparks, and Wrangler substations.	\$ 1,140,858
DT419	TRIUMPH FEEDER ADDITIONS	Project needed to maintain or improve system reliability and serve load growth in the area. It included the construction of new feeders and extensions of existing feeders to intercept Montwood and Pellicano feeders to provide offload and back-feed support.	\$ 1,104,550

EL PASO ELECTRIC COMPANY

SECTION 3

LINE EXTENSION POLICY

AND

CONSTRUCTION CHARGES

EL PASO ELECTRIC COMPANY

SECTION 3

LINE EXTENSION POLICY AND CONSTRUCTION CHARGES

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Revision Number 67
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EL PASO ELECTRIC COMPANY
STATE OF TEXAS SERVICE AREA

Incorporated Cities and Towns

City of El Paso
Town of Anthony
Town of Clint
Town of Horizon City
City of Socorro
Village of Vinton
Town of Van Horn
City of San Elizario

Unincorporated Service Areas

County of El Paso
Portion of County of Culberson
Portion of County of Hudspeth

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Revision Number 67
Effective with service provided on and after
November July 13, 20251

EL PASO ELECTRIC COMPANY

Line Extension Policy and Construction Charges

PURPOSE

It is the purpose of this document to set forth uniform and comprehensive policies concerning Line Extensions and construction charges for the entire Texas service area of El Paso Electric Company (hereinafter the "Company").

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Sheet Number	3	Effective	with service provided on and after
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EL PASO ELECTRIC COMPANY

Line Extension Policy and Construction Charges

DEFINITIONS

Actual Revenue means

The actual amount of revenue ~~received-billed~~ on account of the Line Extension by the Company from the Customer. The amount shall be based on monthly bills determined by the metered monthly kilowatt (kW) demand and kilowatt-hour (kWh) usage and by applying the appropriate tariff schedule and riders, less the fixed fuel factor costs and taxes.

Address for Notice means

Where notice is required to be provided to the Company under this policy, such notice shall be sent via mail to:

Attention: Distribution Design Supervisor
El Paso Electric Company
100 N. Stanton St.
El Paso, TX. 79901
Location #571

OR sent electronically to:

DESIGNSUPERS@epelectric.com —

Notice will be deemed received ~~when~~ with a Notice Received email is sent to the customer. If a customer's email address is not provided to the Company, a Notice Received will be sent via mail.

B. Adequate Security means

~~An irrevocable letter of credit or certificate of deposit, or withdrawal restricted savings account payable to the Company, in a manner acceptable to the Company, and in an amount equal to the Adjusted Revenue Obligation. Such Adequate Security shall be obtained by the Customer from or maintained by the Customer at a financial institution that is acceptable to the Company, insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), and preferably located within the Company's service territory.~~

~~The terms and conditions of acceptable Adequate Security escrow agreements are as follows:~~

- ~~(a) The Customer shall secure and maintain an escrow account at a financial institution acceptable to the Company and that is payable to the Company in the amount of the Adjusted Revenue Obligation.~~

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EL PASO ELECTRIC COMPANY

Line Extension Policy and Construction Charges

- ~~(b) The Customer's designated financial institution shall hold the escrow account in full force and effect on behalf of the Company until the Company has recovered the Extension Cost, which shall be no less than sixty (60) days after the final revenue calculations have been made.~~
- ~~(c) The Company shall have the right to withdraw funds from the escrow account, only up to the Adjusted Revenue Obligation, to pay for any sums that may become due to the Company or for nonperformance of obligations under the terms of the Line Extension Agreement.~~
- ~~d) For the term of the Line Extension Agreement, the Company will compute the Actual Revenue at the end of each of the Revenue Period's twelve (12-) month periods. After the Actual Revenue calculations have been made, the Company shall recalculate the Adjusted Revenue Obligation and will promptly notify the Customer and the financial institution in writing.~~

G. Adjusted Revenue Obligation means

The Revenue Guarantee Obligation reduced by any Actual Revenue earned in any of the Revenue Period's twelve- (12-) month periods.

D. Cash Advance for Construction means

A cash advance by a Customer for construction that is subject to refund either wholly or in part, depending on the amount of Actual Revenue generated over the Revenue Period.

Commission means

The Public Utility Commission of Texas.

E. Completion Date means

The date that the Company has completed its portion of the work on the Line Extension to include any electrical work, which does not necessarily include energization of energization of the Meter and service drop.

Connected Load means

The combined nominal rated capacity in kilowatts of all motors or other electric energy consuming devices installed on the Customer's premises that may be operated with electric energy supplied by the Company.

F. Construction Refund Cap means

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Line Extension Policy and Construction Charges

The Company's design costs paid by the Customer plus the lesser of the Company's Estimated Extension Cost or the Customer's Company-approved actual costs for the construction of the Line Extension.

G. Cost of Capital Charges means

~~The interest rate is based on the over-all tax-effected PUCT approved cost of capital for either the Estimated Extension Cost or, upon the final accounting for the Line Extension's construction, the Extension Cost. The cost of capital shall be applied annually and based on the Company's weighted average cost of capital at the time construction of the Line Extension begins and so specified in the Line Extension Agreement. A charge calculated based on the Company's last approved weighted average cost of capital (WACC) approved by the Commission in its last base rate case.~~

H. Customer means

Any corporation, business establishment, institution, association, governmental entity, or individual currently being served or using electric energy supplied by the Company.

I. Customer Contribution means

~~Either Aa~~ Cash Advance for Construction or a Revenue Guarantee Account to cover a Revenue Deficiency.

J. Ending Revenue Deficiency means

The amount by which the Extension Cost exceeds Actual Revenue received from Customers served from the Line Extension at the end of the Revenue Period.

K. Estimated Annual Revenue means

The estimated revenue during any of the Revenue Period's twelve- (12-) month periods. The estimated revenue shall be calculated in a similar fashion as Estimated Revenue.

L. Estimated Extension Cost means

The Company's estimate of the Extension Cost calculated on the basis of current costs to install the same or a similar type of Line Extension.

M. Estimated Revenue means

The estimated revenue during the Revenue Period. The respective monthly kWh usage is determined by estimating the Customer's monthly demand, hours per day, days per week, and an average of 4.3 weeks per month, and calculated with the following formula:

$$\text{kWh} = \text{kW} * \text{hrs} * \text{days} * \text{weeks}$$

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Line Extension Policy and Construction Charges

The above formula will be adjusted by a load factor and power factor, as applicable, based on the customer type and rate schedule for which the Customer qualifies. The monthly demand (kW) above is estimated based on operating and load information provided by the Customer and/or the average demand and operating characteristics of similar Customers.

The estimated revenue during the Revenue Period is determined by using the estimates of kWh and kW usage calculated by the above methods and applying the appropriate rate schedule and riders, less the fixed fuel factor costs and taxes.

N.—Extension or Line Extension means

~~Depending on the context, Line Extension can mean Either an Overhead Line Extension, Underground Line Extension, (including a Line Extension for a backbone system), or Transmission Line Extension, or all. A backbone system is the main line or "trunk" of a distribution feeder.~~

O.—Extension Cost means

~~The actual cost to the Company for the design, installation, acquisition of all rights of way and acquisition of permits, and any other necessary costs incurred for the construction of the Line Extension by the Company. The cost of the service drop, M-meters, and metering equipment is not included in the cost of an Overhead Line Extension except for those Customers served at one of the Company's standard Transmission Voltages. The cost of the meters and metering equipment is not included in the cost of an Underground Line Extension.~~

P.—Franchised Area means

Those cities, towns, and villages in which the Company has been granted a franchise to provide electric utility service.

Q.—Impaired Clearance means

The condition where a structure(s), including, but not limited to, buildings, signs, towers, poles, fencing, and swimming pools, is located in a position or manner in which insufficient clearance, as specified by any applicable law, regulation, and local codes and the National Electric Safety Code, as may be amended, exists between the structure and the Company's existing transmission, substation, express feeder, streetlight, or distribution line facilities, or any combination thereof.

R.—Line Extension Agreement means

The agreement entered into between the Customer and the Company based on this Policy y in which either (1) the Company agrees to build a Line Extension in exchange for the Customer providing a Customer Contribution; or (2) the Company grants the Customer a

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EL PASO ELECTRIC COMPANY

Line Extension Policy and Construction Charges

Refund Credit, subject to any reductions or refunds as outlined in the Policies Section on Sheet No. 5 Under Paragraph B. (Line Extensions) Option 2: Line Extensions Built by the Customer 11. (Refunds for Customer Built Line Extensions) – a. Sheet No. 6, Policies, Paragraph B., Option 2, 11. a. 11 of Option 2, in exchange for the Customer building the Line Extension.

S. —Maximum Run means

The maximum amount of distance as determined by Company policy at the time of construction.

T. —Meter means

A recording instrument of standard manufacture provided by the Company to measure energy consumption, demand, or both at a single Point of Delivery.

U. —Overhead Line Extension means

The new pole line facilities (including without limitations, poles, anchors, conductors, insulators, arresters, cut-outs, transformers, breakers, and other miscellaneous hardware) necessary to provide electric service to the Point of Delivery.

V. —Permanent Customer means

A Customer whose service is delivered to a Permanent Installation.

W. —Permanent Installation means

Any structure that is constructed or placed on and permanently affixed to a foundation, and that is, or will be, used or occupied on a full-time basis. A manufactured home or a prefabricated structure shall qualify as a Permanent Installation if 1) the home or structure is installed on a foundation system according to regulations of the Texas Department of Labor and Standards or is otherwise impractical to move and has the wheels, axles, and hitch or towing device removed and 2) the home or structure is connected to a permanent water and sewer system.

X. —Point of Delivery means

The point where the Company's wires or facilities are connected with those of the Customer. For overhead service, it is the point specified by the Company where the Company's and the Customer's conductors are connected. For underground service, see the Policies Section, Sheet No. 5, Paragraph C. (Special Underground Service Provisions) A. (Secondary Voltage Underground Extensions) 2. (Point of Delivery).

Y. —Primary Service means

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Electric service provided to a Customer at a Primary Voltage.

~~Z.~~ **Primary Voltage** means

One of the Company's standard voltages between 2,400 volts and 25,000 volts.

~~A1.~~ **Revenue Credit** means

The Estimated Revenue for the Revenue Period that can be used to offset the Customer's monthly bill.

~~B1.~~ **Revenue Deficiency** means

The amount by which the Estimated Revenue is less than the Estimated Extension Cost.

~~G1.~~ **Revenue Guarantee Account** means

An irrevocable letter of credit or certificate of deposit, or withdrawal restricted savings account payable to the Company, in a manner acceptable to the Company, and in an amount equal to the Adjusted Revenue Obligation. Such Adequate Security shall be obtained by the Customer from or maintained by the Customer at a financial institution that is acceptable to the Company, insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and preferably located within the Company's service territory.

~~A written agreement entered into by the Company and the Customer providing Adequate Security.~~

~~D1.~~ **Revenue Guarantee Obligation** means

The Estimated Extension Cost plus Cost of Capital Charges or, upon the final accounting for the Line Extension's construction, the Extension Cost as adjusted for Cost of Capital Charges.

~~E1.~~ **Revenue Period** means

The forty-eight- (48) months that starts with the first full-billing month that begins after the Completion Date for a Company-built Line Extension and after the closing of the sale of the Line Extension to the Company for a Customer-built Line Extension. The Revenue Period shall be divided into four separate 12-month periods, the first of which begins on the first full-billing month that begins after the Completion Date. The Revenue Period may be extended in accordance with Sheet No. 5, Policies, Paragraph B, Option 1.2.b.2

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Revenue Guarantee Account (b)(2) of Option 1 for Company-built Line Extensions or Sheet No. 5, Policies, Paragraph B, Option 2, 11.c. for Customer-built Line Extensions.

F1. Secondary Service means

Electric service provided to a Customer at a Secondary Voltage.

G1. Secondary Voltage means

One of the Company's standard service voltages below 600 volts.

Temporary Customer means

A customer that has electrical service to a structure that is not constructed or placed on and permanently affixed to a foundation, and that is not, or will not be, used or occupied on a full-time basis.

H1. Temporary Service means

Electric service to a Customer that is not delivered to a Permanent Structure and, in the sole opinion of the Company, is otherwise not of a permanent nature (e.g., temporary sales stands or construction sites).

I1. Transmission Line Extension means

The new overhead Transmission Voltage facilities including, without limitation, poles, anchors, conductors, insulators, arresters, cut-outs, transformers, breakers, and other miscellaneous hardware) necessary to provide electric service to the Point of Delivery

J1. Transmission Voltage means

One of the Company's standard voltages greater than or equal to 69,000 volts.

K2. Underground Line Extension means

The new underground Primary or Secondary Voltage facilities including, without limitation, conduit system, pullboxes, transformer enclosure(s), transformer(s), primary voltage cables, secondary voltage cables, arrestors, switches, cut-outs, pole risers, and miscellaneous hardware necessary to provide underground service to the Point of Delivery.

Weighted Average Cost of Capital (WACC) means

The weighted average of the costs of the various classes of capital used by the Company.

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POLICIES

A. GENERAL

1. The policies herein contained are subject to the terms and conditions in the Company tariff schedules, the rules and regulations of the ~~Public Utility Commission of Texas Commission~~, and the Company's standard operating procedures.
2. The Company will extend its facilities in a cost conscious manner while adhering to all applicable state and local ordinances. The Company will ~~and provide service in a uniform and nondiscriminatory manner to all Customers within its service territory under its standard applicable rate schedules and this policy~~. The Company will make Extensions within its territory required to serve any Customer on a basis equitable both to the Company and the Customer.

3. Meters:

The Company will provide the Meter and designate the location of all Meters and metering equipment.

4. Type of Service:

Either single phase or three phase electrical service shall be specified by the Company and service will be at one of the Company's standard voltages (i.e., Primary or Secondary Voltage). Customers requesting ~~three phase service~~ must meet Company requirements.

5. Rights-of-Way (Easements):

The Company will not construct a Line Extension for a Customer until the Company has secured all required firm rights of way and permits. All Extensions shall be constructed on private rights of way, except for within ~~incorporated municipalities where private rights of way are not available~~ Franchised Areas where. Line Extensions may be constructed on existing public roads, streets, alleys, or easements. New Customers shall ~~furnish grant~~ such rights of way as required to the Company, without charge, ~~to the Company~~, over property owned or leased by said new Customers, and, if possible, will assist the Company in securing other rights of way necessary to provide service (by way of example, rights of way from a neighboring property owner). The Customer shall have all of the Customer's property corners surveyed and necessary property irons installed by licensed surveyors to permit the Company to properly install the Company's electrical facilities within said rights of way.

6. If the Customer decides to cancel the request for a Line Extension, the Company shall have the right to recover all Extension Costs incurred by the Company until such cancellation. The Customer shall secure a Revenue Guarantee Account or otherwise have available funds to cover the Adjusted Revenue Guarantee Obligation.

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7. Renewable Energy and Distributed Generation Information:

Upon request, the Company will provide information to the Customer ~~inform each Customer requesting a Line Extension of the availability of information concerning on-site renewable energy and distributed generation technology alternatives. The Company shall provide a Customer with such information:~~

~~a. Upon request by the Customer,~~

~~ba.~~ At the same time the estimate of any required Cash Advance for Construction or other such prepayment is provided to the Customer, or

~~be.~~ Prior to the Customer signing a Line Extension Agreement if the Customer is not required to provide a Cash Advance for Construction or other such prepayment.

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B. LINE EXTENSIONS

OPTION 1: LINE EXTENSIONS BUILT BY THE COMPANY

1. General:

The Company will provide, at its expense, Primary or Secondary Service to a Permanent Customer if the Estimated Revenue equals or exceeds the Estimated Extension Cost. No extension of overhead lines will be made from underground facilities or into areas designated or committed to underground facilities. If the Company determines the Estimated Revenue from the Primary or Secondary Service Line Extension does not equal or exceed the Estimated Extension Cost, the Company shall be allowed to require a Customer Contribution for the Extension pursuant to the terms and conditions of this Line Extension Policy.

2. Revenue Deficiencies:

- a. If the Estimated Revenue results in a Revenue Deficiency, the Company is not obligated to provide the Extension unless the Customer provides a Customer Contribution. The amount of the Customer Contribution shall be provided to the Customer and will be computed using the following formula:

(1) Estimated Annual Revenue	\$ _____	
(2) Estimated Extension Cost	\$ _____	
(3) Revenue Credit, if any	\$ _____	(Line 1 x 4)
(4) Customer Contribution	\$ _____	(Line 2 less Line 3)

- b. In cases of a Revenue Deficiency, the Customer must enter into a written agreement with the Company to cover the Revenue Deficiency through a Line Extension Agreement.

(1) Cash Advance for Construction:

The Customer may enter into a Line Extension Agreement for a term that ~~begins upon the Customer providing a Cash Advance for Construction in the amount of the Estimated Extension Cost~~ commences when the Revenue Period does.

(a) Individual Customer Served:

If the Extension is to serve an individual Customer, the Actual Revenue from the Customer shall be deducted from the Cash Advance for Construction for the Revenue Period, or until the amount advanced has been exhausted. If a balance remains after the Revenue Period, the

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balance reverts to the Company as a Customer Contribution. All of the fixed fuel factor costs and taxes shall be paid monthly by the Customer.

(b) More Than One Customer Served:

If the Extension is to serve a group of Customers, refunds of the Cash Advance for Construction will be made annually based upon Actual Revenue received from Customers served by the Extension. If additional Customers are served from additional Line Extensions, refunds may be given as set forth in paragraph (d), which is below.

(c) Revenue Credit Given – Partial Cash Advance Required:

If the Customer is given a Revenue Credit, the Customer then may be required to make a Cash Advance for Construction for the Revenue Deficiency. Refunds will then be made only from Actual Revenue received from other Customers served when additional Line Extensions are constructed. Refunds or appropriation of the advance will be made as set forth in the following paragraph (d).

(d)
$$R = \frac{E - C}{48} \times (48 - M) \text{ , where:}$$

R = the amount of the refund,
E = the Estimated Revenue from Permanent Customers served from additional Line Extensions,
C = the Estimated Extension Cost for the additional Extensions,
M = the number of months since the Completion Date.

Note that in no case will refunds from electric bill and one-time refunds exceed the Customer's Advance for Construction.

(e) The Company will reduce or waive the Customer Contribution when portions of a Line Extension are a service betterment for existing lines which constitute an upgrade or improvement that the Company would pursue even if the Customer had not requested the Line Extension.

Following the payment of a Customer Contribution, the Company will reconcile refund balances at the end of the first twelve (12) months of the Revenue Period and thereafter annually. The interest rate that will be applied to balances subject to refund will be the annual Commission-approved interest rate for customer deposits as determined under 16 Texas Administrative Code § 25.24(g) or its successor.

(2) Revenue Guarantee Account:

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Customers may enter into a Line Extension Agreement for a term that commences ~~upon the execution of the Revenue Guarantee and terminates at the end of the~~ when the Revenue Period, does. ~~At the end of the Revenue Period.~~ At the end of the Revenue Period, the Company will determine if there is an Ending Revenue Deficiency. If there is an Ending Revenue Deficiency, Cost of Capital Charges will be assessed. The Ending Revenue Deficiency and the Cost of Capital Charges will then be due within thirty (30) days of billing.

If additional Line Extensions are to be connected to the original Line Extension, ~~EPE~~ the Company must be notified, in advance but no earlier than 30 days prior to such extension, by the original customer at the Address for Notice. ~~Thereafter,~~ any Actual Revenue received from Customers served from the additional Extensions must first cover the cost of the additional Extension, including transformers, before it can be applied to the original Customer's Customer Contribution. When a Customer enters into a Revenue Guarantee to offset the Extension Cost, the Actual Revenue can come from the Customer entering into the Line Extension Agreement and other Customers who are later served from the Line Extension. If at the end of a Line Extension's term there is an expectation that the Actual Revenue will equal or exceed the Extension Cost within an additional two ~~(2)~~ (2) year period, at the Company's option, the Line Extension Agreement's term may be extended by two (2) years.

The above terms related to Revenue Guarantees Accounts apply to individual residential Customers, commercial and industrial Customers, land developers, residential subdivision developers, and commercial and industrial subdivision/park developers.

OPTION 2: LINE EXTENSIONS BUILT BY THE CUSTOMER

1. General

Customers desiring new Line Extensions ~~to be built to their premises~~ may choose to have the Extension constructed by a competent and qualified electrical contractor. After construction and acceptance, the Customer shall sell the Line Extension to the Company for \$1.00 for its use in serving end-users.

Customers may choose to have only the underground structural portion of the Underground Line Extension constructed by a competent and qualified contractor. The underground structural portion of an Underground Line Extension includes all trenching, bedding, backfilling and required compaction, duct, concrete pullboxes, pullbox lids, Secondary Service enclosures, transformer pad and pullbox and transformer protection from vehicular traffic. After construction and acceptance by the Company of the structural portion of the Underground Line Extension, the Customer shall sell the underground structural system to the Company for \$1.00 for its use in serving end-users.

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In recognition of the need to protect the public from electrical hazards, and the need for structural and electrical systems that are useful and safely maintainable over a normal and customary service life, the following will govern the construction of customer built electrical systems.

2. Design and Construction Specifications

The Company will design the Line Extension required to serve the Customer, in accordance with the Company's standards and specifications, and shall provide the design drawings and specifications to the Customer. The Customer shall pay the Company for applicable design costs at the time of the closing of the Line Extension sale, which are refundable to the Customer in accordance with Paragraph 11 of this Sheet 56.

3. Material Specifications

The Company shall specify all materials and equipment to be used in the Line Extension including, but not limited to, wire, cable, conduit, transformers, poles, fixtures, switchgear, relays, capacitors, and insulators. The Customer shall be free to acquire said materials from any source, provided that all materials shall be from Company approved manufacturers and meet the specifications as promulgated by the Company that are in effect at the time the Customer begins construction on the Line Extension.

4. Quality Control and Assurance

The Customer agrees to comply with Company specifications for materials, equipment, and construction standards. In order to assure compliance, the Company will select a construction inspector who will visit the construction site. The construction inspector shall have the authority to accept or reject the work and materials of the Customer or contractor and shall certify such acceptance or rejection at the time of inspection. The function of the construction inspector shall be to verify compliance with design, materials, equipment and installation specifications, and all other matters relating to the quality control of the Line Extension's construction.

The Customer agrees to pay the Company at the closing of the sale of the Line Extension for ~~EPE's Company's~~ reasonable costs incurred in the inspection of the Line Extension. The inspections costs are refundable in accordance with Paragraph 11 of this Sheet 56.

5. Easements and Rights of Way

The Company will secure all required firm rights of way and permits for customer-built Line Extensions in accordance with Rights-of-Way (Easements) above located in the Policies Section on Sheet No. 5 Under Paragraph A. (General) 5. above, and the Customer shall pay the Company for all costs incurred by the Company for right

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of way acquisition. The Customer, at its option, can secure all required firm rights of way and permits. In this case, the following will apply:

- a. The Customer shall provide to the Company easements and rights of way in a ~~Company approved format~~ approved by Company in its sole discretion, that reflects the as built configuration and location of the Line Extension.
- b. The Company will assist the Customer in securing rights of way necessary for the Extension, if requested. The Customer shall pay the Company for such assistance.
- c. The Customer shall pay the Company for its reasonable costs incurred to verify the easements and rights of way. Rights of way verification must be completed prior to the closing of the Line Extension sale.
- d. All rights of way costs incurred by the Company shall be paid by the Customer at the time of the closing of the Line Extension sale. Such rights of way costs are refundable in accordance with Paragraph 11 of this Sheet 6.

6. Licensing Requirements and Compliance with Required Governmental Inspections

The Customer shall only use those contractors that are properly qualified and licensed, in accordance with any applicable state and local law and regulation, to construct the Line Extension. The Customer shall also obtain from the contractor and transfer to Company EPE at the closing of the sale of the Line Extension a one-year workmanship warranty as well as any standard equipment warranties for the Line Extension's components. The Customer agrees to comply with all applicable state and local construction inspection requirements.

7. Meters

The purchase and installation of Meters will be the sole responsibility of the Company.

8. Purchase of System and Resulting Tax Liability

After the Line Extension has been constructed and accepted by the Company's construction inspector, the Customer agrees to sell to the Company and the Company agrees to buy the line extension for \$1.00. This sale shall be free of any liens or encumbrances.

Should any sales or use tax liability to the Company result from the sale, the Customer agrees to pay the cost of said tax liability.

The Company and the Customer shall execute an agreement (Customer Built Line Extension) to transfer the property and to make the Customer eligible for refunds in accordance with Paragraph 11 of this Sheet 56.

9. Property Records at the Time of Sale

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The Customer agrees to supply to the Company its actual costs incurred in constructing the Line Extension so that proper accounting of the extension may be made by the Company. The Company will review the actual costs and may, at its sole discretion, request further documentation to support the submitted actual costs. Further, the Company may, at its sole discretion, reject such costs that after review it deems unreasonable. Those costs rejected by the Company shall reduce the Customer's total actual costs, which may affect the amount of the Construction Refund Cap. The Company agrees to keep the Line Extension costs incurred by the Customer confidential unless the Company is required to disclose this information to regulatory or other governmental agencies or bodies.

10. Liability for the Line Extension

Commencing with the date of sale of the Line Extension to the Company, the Company will assume full and complete operating responsibility for the Extension. The Customer shall be liable for the direct and indirect consequences of any defects or failures of the Line Extension constructed by the Customer for a period of one (1) year from the date of acceptance, unless such defects or failures arise from the Company's design, specifications, or improper operation of the Extension.

11. Refunds for Customer Built Line Extensions

- a. At the time of sale of the Line Extension to the Company, the Customer may receive an initial refund payment based upon the installation of permanent Meters. The revenue refund payment is based on the Estimated Revenue from the Meters over the Revenue Period and cannot exceed the Construction Refund Cap. In such cases, the amount subject to refund will be computed using the following formula:

(1) Construction Refund Cap	\$ _____
(2) Total Revenue Credits for the Revenue Period (Estimated Revenue)	\$ _____
(3) Amount Subject to Refund (Line 1 less Line 2)	\$ _____

The Customer must enter into a Line Extension Agreement with the Company to make the Customer eligible for refunds.

- b. The Amount Subject to refund will be refunded by the Company as follows:

- (1) The Company will refund at the end of each of the Revenue Period's twelve- (12-) month periods to the Customer the Actual Revenue from such period above the Revenue Credit already given for the same twelve- (12-) month

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period or reduce the refundable portion by Actual Revenue from the twelve- (12-) month period below the Revenue Credit already given for such twelve- (12-) month period. At no time will the Company ever refund in total more than the Construction Refund Cap.

- (2) The Company must review the account at the end of each of the Revenue Period's twelve- (12-) month periods. If at the end of a twelve- (12-) month period or the Revenue Period the total Actual Revenue exceeds the Construction Refund Cap, the Company must refund the entire amount subject to refund to the Customer.
 - (3) If notified, in advance, at the Address for Notice by the customer that built the original line extension, ~~the~~ the Company will refund an amount equal to the Actual Revenue over the Revenue Period or the Estimated Revenue of each new customer connected to the customer-built Line Extension, less an amount equal to the Estimated Extension Cost of the additional Extensions, including transformers. No refund shall be made for Customers connected to a new Line Extension off the original Line Extension unless the new Extension and Customers are within the area exactly described in the original Line Extension Agreement. The total of all such refunds shall in no case exceed the Construction Refund Cap. Refunds will be made annually or at shorter intervals at the option of the Company.
- c. If the Line Extension is generating sufficient revenue in the fourth (4th) twelve (12) month period of the Revenue Period to cover the Company's fixed costs, the Company will extend the Line Extension Agreement for an additional two (2) years.

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C. SPECIAL UNDERGROUND SERVICE PROVISIONS

A. Secondary Voltage Underground Extensions:

1. Permanent New Residential Customers:

(1) Overhead System:

Where 120/240-volt service is readily available from an existing overhead system, the Company will install, own, and maintain a pole riser, riser base, secondary service enclosure, and service conductors up to the Maximum Run for providing single phase underground secondary service to a Customer. The cost of installing the service enclosure and the pole riser installation shall be borne by the Customer. The Customer will supply, install, own, and maintain the conduit system from service enclosure to the Meter enclosure. The Customer-supplied conduit system must meet Company specifications and local code requirements.

(2) Underground System:

Where 120/240-volt service is readily available from an existing underground system, the Company will install, own, and maintain service conductors up to the Maximum Run for single phase service, in a customer supplied, owned, and maintained conduit system, from the nearest Company transformer or service enclosure to the Point of Delivery. The location of both points will be designated by the Company. The Customer-supplied conduit system must meet Company specifications and local code requirements.

2. Point of Delivery:

The Point of Delivery for individually served and metered permanent residential Customers requesting underground service shall be the Meter enclosure.

When multiplex residential units (duplex and above) have their Meters grouped and connected into a common gutter, the Point of Delivery shall be at a Company-owned Secondary Service enclosure or transformer as designated by the Company.

The Point of Delivery for all other Customers requesting underground service shall be the low voltage terminals of the Company's transformation unless another Point of Delivery is specified by the Company.

Customers will provide, own, and maintain all facilities beyond the Point of Delivery.

3. Residential Subdivisions:

In a residential subdivision, normally Underground Line Extensions must be made before construction of houses begins. The Company will install an underground distribution system in a filed, dedicated subdivision after the developer has met Company

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requirements pertaining to the installation of other utilities and has entered into a Line Extension Agreement covering the number of residential lots to be served, the location of any necessary overhead express feeder lines, the Revenue Guarantee Obligation, the Adequate Security, and other necessary conditions as determined by the Company. The developer's Revenue Guarantee Obligation for an underground residential system will be determined using then-current material and construction costs.

No overhead or underground Secondary Voltage services will be extended from the overhead express feeder lines.

4. Commercial and Industrial Customers:

The Company will install an underground Primary Voltage or Secondary Voltage Extension to serve a commercial or an industrial Customer after the Customer has entered into a Line Extension Agreement (if needed) covering the location of the Company's new Overhead and Underground Extensions, the amount of the Revenue Guarantee Account, if applicable, and the method of securing payment of the Revenue Guarantee Account. Commercial areas designated or committed to underground facilities by the Company and/or the developer or any regulatory body will only be served underground.

5. Conversion of Overhead Facilities to Underground Facilities:

Residential Service Drops:

If a residential Customer requests conversion of the Customer's existing overhead service drop to underground service, the Company will, at the Customer's expense, install underground service conductors up to the Maximum Run if the following four (4) conditions are met:

- (1) The Company supplies and installs the pole riser, riser base, Secondary Service enclosure, and any conduit between the riser base and the service enclosure. After the installation of the above facilities, the Company will assume ownership and maintenance of these facilities. The Customer must also grant any needed firm easements for this installation and for future Underground Line Extensions from the service enclosure to adjacent lot(s) as required.
- (2) The Customer supplies, installs, owns, and maintains the conduit system from the riser base or service enclosure to the Meter enclosure. The conduit system must meet Company and local code requirements.
- (3) The Customer makes any changes to the Customer's own service entrance equipment necessary to accommodate the new underground service.
- (4) The Customer pays the Company the then-current estimated cost to install and remove the overhead service drop.

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The cost of installing the service pedestal and the pole riser installation shall be borne by the Customer and the Company shall own and maintain the service pedestal and the pole riser installation.

B. Primary Voltage Distribution Facilities:

If the Company, in response to a Customer request, agrees to replace the Company's existing overhead facilities with underground facilities, the Customer shall pay the Company in advance the estimated installed cost of the Company's new underground facilities plus the estimated cost to remove the existing overhead facilities less the estimated salvage of the removed overhead facilities.

Commercial and industrial Customers will provide, own, and maintain all facilities beyond the new Point of Delivery.

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D. TEMPORARY SERVICE

A Customer requesting Temporary Service shall pay the Company in advance the estimated cost of equipment plus installation and removal expenses, less the estimated salvage value. The cost of the equipment plus installation shall be calculated in the same manner as for permanent service. The removal expenses will be estimated based on the specific equipment and installation used for the Customer and the most current standard labor cost estimates. Salvage value will be based on the specific equipment and the market value of the equipment at the time the estimate is provided.

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E. SPECIAL SERVICES

1. Dual Feeders:

Any ~~permanent~~ customer requesting an alternate Primary Voltage line in addition to the regular main Primary Voltage line shall either make a Customer Contribution in the amount of the Estimated Cost of the Primary Voltage Extension (including substation facilities) or enter into a written agreement to pay a monthly facilities charge equal to the Company's fixed costs on the alternate Extension. To the extent that the alternate Extension requires a reservation of distribution capacity, the Customer will be charged a Reserved Distribution Capacity Charge, as provided in the Customer's applicable rate schedule.

2. ~~Primary and~~ Transmission Voltage Service:

Electric service from the Company's ~~Primary and~~ Transmission Voltage system is available at the Company's option to Customers whose electrical load is of such magnitude or unusual character that it should not be served otherwise. The Customer shall be responsible for providing or funding all transformation equipment, which must be in accordance with Company specifications. The total cost of the Transmission Line Extension (including metering) shall be subject to a monthly facilities charge. The Company, at its option, may require a Customer Contribution for all or a portion of the construction costs of the Extension.

3. Private Security Lighting or Area Lighting:

Dusk to dawn security lighting service is available in the Company's service area under the terms and conditions of the applicable rate schedule. If 240-volt overhead service is readily available within the Maximum Run, the Company will install a standard fixture on an existing wood pole or a new wood pole located as mutually agreed to by the Company and Customer. If 240-volt overhead service is not readily available within the Maximum Run, the Extension Cost will be borne by the Customer. All requests for service from an underground system must be negotiated separately with the Company as this lighting service is not available in all underground situations.

The Company retains the right to remove a security light if it is vandalized repeatedly.

4. Load Requests Greater Than 750 kVA:

Upon any customer request for service that requires a transformer greater than 750 kVA, EPE will request verification from the customer including, if applicable, from the customer's certified electrician, of tenant status and type, and electrical load characteristics of planned equipment to assess planned Connected Load. Any requests

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from customers verifying planned Connected Load will be addressed under Section B of this line extension policy including any applicable Customer Contribution requirements. If the customer does not verify planned Connected Load, EPE will provide, at minimum, a 750 kVA transformer, or a transformer size to the verified load, and reserve distribution capacity for the planned Connected Load for no more than one year after installation of the transformer. If the customer later verifies additional planned Connected Load, EPE will provide a larger kVA transformer as applicable but not exceeding the reserve distribution capacity amount, and the Customer will be managed going forward under Section B of this line extension policy. However, if planned Connected Load requiring a larger transformer is not verified during the first twelve months after installation of the transformer, EPE will bill a Distribution Capacity Reservation Charge to any customer that requests to hold the reservation beyond the twelve-month period. The charge will be a one-time, non-refundable charge to reserve the requested capacity for an additional twelve-month period after which the reservation will terminate. It will be calculated as an annualized minimum demand charge based on the difference of the requested load and the installed transformer capacity at the end of the initial twelve-month period.

5. Load Requests at Distribution Voltage for 30 MW or Greater:

Any customer seeking interconnection at distribution voltage for a 30,000 kW or higher load will be responsible for the costs of any unplanned substation upgrades, as well as transmission line upgrades, if applicable, that are required for the requested service (the Transmission Upgrades), as dedicated facilities. If the customer chooses that EPE install, operate and maintain the distribution facilities, the customer will be responsible for the costs of the Transmission Upgrades via an Infrastructure Capacity Charge and cost recovery guarantee that will be estimated at the time of the service request. The fee will be based on investment required to build out infrastructure to satisfy the needs of the development. The Company and the customer will enter into a written agreement addressing the cost recovery guarantee as well as the Infrastructure Capacity Charge and the period of time over which it will be paid. If the customer chooses to not move forward with their project, EPE will allow a refund of any unused funds towards construction efforts that had begun in good faith.

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F. PUBLIC STREET LIGHTING, FREEWAY LIGHTING AND TRAFFIC SIGNAL LIGHTS

1. Company-Owned Street Lighting:

Street lighting systems are normally installed, owned, and maintained by the Company. Only Company specified standard street lighting components are used in the installations. Street lighting service is available to all city, town, village, county, and state governmental entities (hereinafter referred to as "City") and will be installed only after the appropriate installation and billing authorization is received by Company in writing. This lighting service is also available to public schools for street, parking, and area lighting. All lighting service will be provided and billed under the applicable rate schedules.

a. Lights Served from Overhead Lines:

In areas with overhead electric distribution lines, streetlights are installed on existing wood poles. If the desired location of the new light does not have an existing pole, the Company will install one additional pole for each ~~street light~~streetlight at no cost. If additional facilities are required in order to provide service to the light, the City, state entity, or school shall pay the Extension Cost as a Customer Contribution.

b. Lights Served from Underground Facilities:

In areas with underground electric distribution lines, ~~street lights~~streetlights (including a standard wood pole) will be installed at a location designated by the City and agreed to by the Company. The Company will also install the underground conduit, service wire, and related facilities as needed. Where street lights are requested to be served underground and are installed by the Company and the street light installation will be owned by the Company, the Customer shall make a Customer Contribution for the difference between the cost of the Underground Line Extension and the four-year estimated revenue if there is a difference. The Company will install street light poles only on streets or main thoroughfares that are paved and have curbs and gutters.

2. City-Owned Street Lighting:

If a City desires to own ~~street lights~~streetlights that are to be installed by the Company, the City shall pay the Company the total installed cost incurred by the Company. The Company will operate and maintain the lights under the applicable rate schedule (Note 1: not all rates include maintenance). If the City specifies the materials and installation standards, they must be agreed to by the Company.

a. Lights Served from Overhead Lines:

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In overhead served areas, the Company shall install all requested lights and related facilities at the City's cost.

b. Lights Served from Underground Facilities:

In underground distribution areas, the Company or the City may provide and install the ~~street lights~~streetlights at the City's cost. If the City provides and installs the lights (or requires a third party to do so) the Company will not assume any responsibility for operation or maintenance until after the light is connected and in service. If the Company is asked to make a connection to a new City-installed light and is unable to do so because of a faulty installation by the City, a charge for the service call equal to the Company's actual cost will be made.

3. State or City-Owned Street or Freeway Lighting:

In Franchised Areas, the Company may contract with the City to operate and maintain street lighting installed and owned by the State of Texas ("State"). In some cases, the Company may contract with a county for Interstate Highway lighting only. In the absence of such a contract, electric service for State-owned street lighting systems shall be provided under the Company's standard practice for metered commercial services and billed under the applicable rate schedule. The same terms apply to State-owned traffic signals, sign lighting, etc.

4. Relocation of Street Lights:

Street lighting facilities will be relocated for the benefit or convenience of a Customer only when written approval of the new location is received from proper county or municipal authorities and when the Customer making the request bears all relocation cost.

5. Lights in New Subdivisions with Underground Electric Facilities:

If street lights are to be installed in a subdivision, the locations shall be mutually agreed to by the City and the Company before the Company designs its underground distribution system. The necessary conduit shall be installed from the nearest Company power source location to the proposed light pole location at the time of the subdivision development. Payment for these costs will be negotiated between the parties.

6. General Information

If the City or school desires to convert an existing Company-owned mercury vapor fixture to a high pressure sodium vapor fixture or LED fixture, the City or school shall pay all the labor costs associated with the conversion and purchase the old mercury vapor fixture from the Company at the un-depreciated value.

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G. REMOVAL AND RELOCATION

A Customer requesting removal and/or relocation of Company facilities shall bear all costs incurred by the Company in completing the removal and/or relocation. Should a request involve providing electric service simultaneously to new or additional electrical loads, the cost incurred by the Company in completing the removal and/or relocation shall be combined with the estimated cost to provide service. This applies to the removal and/or relocation of Company facilities that will physically interfere with the development of a property or construction of a new building(s), but does not apply to the removal and/or relocation of Company facilities simply as a matter of preference or for aesthetic reasons. If removal and/or relocation causes operating problems for the Company or is objectionable to other parties, the Company may refuse to remove and/or relocate the facilities. Relocation of Company facilities is always contingent upon the Company's securing all necessary rights of way.

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H. AFTER HOURS RATE

A Customer requesting the Company to perform work on an overtime basis shall be required to pay the appropriate after-hours rate.

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I. RENTAL OF COMPANY EQUIPMENT

The Company will rent certain equipment to Customers on a short-term, emergency basis, provided the items of equipment are not immediately available from local suppliers and the Company has a sufficient supply of such items in stock to meet its operating requirements. The terms and conditions of the rental transaction shall be specified in writing.

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J. SALE OF COMPANY INSTALLED FACILITIES

The Company, in response to a Customer request, may, in its sole discretion, sell Company facilities, in place, as is, for the estimated replacement cost less depreciation on replacement cost, if:

- (2) The Customer is changing or expanding the Customer's electrical facilities in a manner that will include the Company's facilities as an integral part of the Customer's facilities.

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K. IMPAIRED LINE CLEARANCE

Any Customer who installs or constructs any permanent or temporary structure(s) that constitutes an Impaired Clearance of the Company's existing transmission, substation, express, feeder, street light or distribution line facilities, or any combination thereof, shall bear all costs incurred by the Company in the reconstruction or relocation, or both, necessary to remove any and all Impaired Clearances. The Customer shall notify the Company as soon as possible of any existing or anticipated Impaired Clearances. In accordance with Section 2.III.4.c., of the Company's Texas Rules and Regulations approved by the ~~Public Utility Commission of Texas (PUCT)~~, the Company may discontinue utility service to a customer without prior notice in the event of a condition determined by the Company to be hazardous.

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20. INCREASING OR DECREASING CONNECTED LOAD

The Customer will not increase the Connected Load except upon written notice to and consent by the Company.

In the event of any such increase in the Connected Load, the Customer must pay for such increase or altered service pursuant to the appropriate tariff schedule(s). If requested by the Company, the Customer will execute a new Agreement for the Purchase of Electric Service at the Company's regular published rate covering the total Connected Load as so increased. In all cases in which new facilities are required to serve the increased load, the Customer must execute a new Line Extension Agreement.

The Company's service conductors, transformers, meters and other devices used to supply electric energy to the Customer each have a definite capacity, and no addition to the Customer's Installed Connected Load thereto will be permitted until the Customer has secured the Company's consent. A violation of this rule makes the Customer liable for any damage resulting there from and can result in the disconnection of service if, in the judgment of the Company, the increased load that has been added without consent of the Company has damaged or may damage the Company's facilities.

In case the Customer's Connected Load is decreased, it is the responsibility of the Customer to notify the Company, in writing, of such decrease before obtaining any benefit in rates from such decrease.

DOCKET NO. 57568

APPLICATION OF EL PASO	§	PUBLIC UTILITY COMMISSION
ELECTRIC COMPANY TO CHANGE	§	OF TEXAS
RATES	§	

DIRECT TESTIMONY
OF
ALEXANDER J. ABOYTES
FOR
EL PASO ELECTRIC COMPANY

JANUARY 2025

EXECUTIVE SUMMARY

Alexander (Alex) J. Aboytes is the Director of Transmission, Substation, and Relay ("TSR") Engineering. He is responsible for overseeing the execution of all engineering functions of El Paso Electric Company's ("EPE" or the "Company") TSR Department. The department's function is to ensure that the Energy Delivery division operates in a safe, reliable, and efficient manner for the benefit of EPE's customers.

Mr. Aboytes presents the transmission and substation plant additions of \$277,825,821 (total Company) that were placed in service from January 2021 through September 2024 (i.e., since the end of the Test Year used in EPE's last base rate case, Docket No. 52195, through the end of the Test Year for the current proceeding). In addition, Mr. Aboytes sponsors the Test Year operations and maintenance ("O&M") expense for transmission on a total Company basis of \$30,568,268.

His testimony demonstrates that the costs of EPE's transmission and substation plant additions are reasonable, necessary, prudent, and these additions are used and useful for safe, reliable, and efficient service to Texas customers. It also demonstrates that Test Year Period O&M expenses for transmission are reasonable and necessary for safe, dependable, and efficient service to Texas customers.